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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

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Commissioner

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VOLUME XIX

88th, 89th, 90th, 91st, 92nd & 93rd DAYS

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MR. McRUER.

ROBERT BRYDIE
OFFICIAL REPORTER
TORONTO
CANADA



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BUYER AND
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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner.

A.S. Whiteley, Secretary,

E I G H T Y - E I G H T H D A Y

(November 11th, 1936)

Robert Brydie,
Official Reporter.

(November 11th, 1936)

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner.

A.S. Whiteley, Secretary,

A P P E A R A N C E S:

J.C. McRuer, K.C.) and E. Beauregard, K.C.)	Commission Counsel,
J.P. Lanctot, K.C.) and R.L. Kellock, K.C.)	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C.) Aime Geoffrion, K.C.) and C.T. Ballantyne,	For Dominion Textile Company.
S.G. Dixon, K.C.	For Courtaulds, Limited.
L.A. Forsyth, K.C.	For Canadian Celanese Limited, and Canadian Silk Products Limited.

Ottawa, Ontario,
November 11, 1936.

-- The Commission resumed at 2.15 P.M.

GORDON HOOPER, recalled

EXAMINED BY MR. KELLOCK:

Q. Now, Mr. Hooper, I ask you to look at Exhibit 820 again for a moment? A. Mr. Kellock, may we correct the evidence that was given yesterday on the silk fabrics on Exhibit--sample of Associated Textile fabrics and 869.

Q. Yes, 869? A. You had a fabric known as 2840. You gave me the information or gave the information that this cloth weighed 12 yards per pound when we were trying to estimate the value of raw silk in the cloth.

Q. That is 12 yards per pound? A. In the finished state. Should be 8 yards per pound or 12 pounds per hundred yards.

Q. That is right--that is what I intended? A. That is the difficulty I had in getting the 30¢ a yard.

Q. With that correction, the way we worked it out, is that right? A. 12 pounds per hundred yards.

Q. And that involved, with the 25% shrinkage, 15 pounds of raw silk in the 100 yards? A. Yes.

Ottawa, Ontario,
November 11, 1936.

-- The Commission resumed at 2.15 P.M.

EXAMINED BY MR. KELLOCK:

Q. Now, Mr. Hooper, I ask you to look at Exhibit 360 again for a moment? A. Mr. Kellock, may I correct the evidence that was given yesterday on the silk fabrics on Exhibit--sample of Associated Textile fabrics and 869.

Q. Yes, 869? A. You had a fabric number 2640. You gave me the information of gave the information that this cloth weighed 12 yards per pound when we were trying to estimate the value of raw silk in the cloth.

Q. That is 12 yards per pound? A. In the finished state. Should be 8 yards per pound or 12 pounds per hundred yards.

Q. That is right--that is what I intended?

A. That is the difficulty I had in getting the 30¢ a yard.

Q. [illegible], the only [illegible] 11 [illegible] that right? [illegible] pounds per yards.

Q. And that involved, with the [illegible] pounds of raw silk in the [illegible]. The-

Q. And have you Exhibit 820. I notice in that exhibit the first item there of the 6th of January, 1930, shows the price of spot raw cotton to have been 17.05 per pound? A. Yes.

Q. Was that a high price at that time or had spot raw cotton been higher than that? A. Will you give me the Exhibit filed on the price of raw cotton. Raw cotton was certainly higher than that.

Q. Prior to that time? A. (Witness looks at Exhibit.) The 17.45 on the 2nd of January; in December 16th and 17th it was 17. and 17.05.

Q. I do not mean so much a few days before but during the years? A. But going back in November and December of 1929, we find that spot raw cotton was as low or lower than 17.05.

Q. What about going back to 1924, would not you get much higher prices than 17.05 spot raw cotton? A. You will have to give me another exhibit. Have you any information there?

Q. My instructions are that it was much higher.

THE COMMISSIONER: How far back can you go? A. I can go right back to 1913, my lord.

MR. KELLOCK: I have a sheet before me - I think it was filed but I do not recall the Exhibit no. - Perhaps you might recognize the information if I showed it to you (hands to witness). Was not that filed? A. I had not seen it. This is

Hooper

Q. And here you Exhibit 300. I notice it

1930, shows the price of spot raw cotton to have been

A. Yes.

Q. Was that a high price at that time or low

spot raw cotton been higher than that? A. Oh

You give me the Exhibit filed on the price of raw cotton

New cotton was certainly higher than that.

Q. Prior to what time? A. (Issue looks

at Exhibit.) The 17.85 on the end of January; in

December 10th and 17th it was 17, and 17.09.

Q. I do not mean so much a few days before but

and December of 1929, we find that spot raw cotton was

as low or lower than 17.05.

Q. What about going back to 1924, would not raw

Q. You will have to give me another exhibit. Have

you any information there?

A. My instructions are that it was much higher.

THE CONSTABLE: How far back can you go?

A. I can go right back to 1913, my lord.

THE CONSTABLE: I have a sheet before me - I think

it was filed but I do not recall the exhibit no. -

monthly average, is it?

Q. Apparently - is that what it says? A. Yes, average of middle spot prices, New York.

Q. If you go back to 1924 you get as much as double the price as existed in January, 1930, do not you? A. In January, 1924, in that month only you get double.

Q. All right, you get figures which approximate that, between that and 1930, do not you? A. No, that is the high point. There was nothing higher than that in subsequent years.

Q. Well, in January 1924, as you pointed out, the price was 34.18. In January, 1925, it was 23.98. January 1926 it was 20.84, 1928 it was 19.12, and during the course of that year in July it went up to 21.71.

THE COMMISSIONER: What year?

MR. KELLOCK: 1928, my lord. 1929, January, it was 20.23. In March of that year went up to 21.19, and then we get down to 1930 and the figures fall progressively right down to 1935 and the 1936 figures are not here, is that right? A. No, they fall progressively to 1932, and then they went up.

Q. Down to 1933? A. It went to 5 cents a pound.

THE COMMISSIONER: On June 29th, 1932, it was 5.55. Then went up again 7.20, 8.65, and 9.29 and down to 7.75 and down to 6.40, and that is the lowest.

MR. KELLOCK: Then in 1933, the average figure

Q. Apparently - is that what it says? A. Yes, average of middle spot prices, New York.

Q. If you go back to 1929 you get as much as double the price as existed in January, 1930, do not you? A. In January, 1929, in that month you get double.

Q. All right, you get figures which approximate to that, between that and 1930, do not you? A. No, that is the high point. There was nothing higher than that in subsequent years.

Q. Well, in January 1924, as you pointed out, the price was 24.1C. In January, 1929, it was 26.29, January 1930 it was 20.04, 1929 it was 1918, and during the course of that year in July it went up to 21.71.

[illegible] next year?

A. [illegible] 1929, on June, 1929, January, it was 20.29. In March of that year went up to 21.19, and then we get down to 1930 and the figures fall [illegible] are not here, is that right? A. No, they fall progressively to 1932, and then they went up.

Q. Down to 1932? A. It went to 5 cents a pound.

[illegible]

[illegible] Then down to 2.40, and that is the lowest

for January is 6.24.

THE COMMISSIONER: We have not that here. April 27th, 7.60. May 12th, 8.95, 10.45, 11.55 and down in August to 6.65.

MR. KELLOCK: Q. It apparently never gets up anywhere near the figures that rule between 1924 and 1930, that would be right? A. Yes. You are using averages. The lowest since 1924 was 12.15 and that is up to 1930, and year 1930 - 1933, the lowest was 8.25. In 1927 the lowest is 12.15 and since 1932 the price has risen above that low point.

Q. Now, you gave a figure in 1924 of what - what was that figure in 1924 you gave? A. You made the statement that at no time since 1930 has the price risen to the lowest point between 1924 and 1930, was not that the question?

Q. That was essentially my question. On the statement of averages that would be so but you say in some instances the price in 1927 approximated what it was in 1935? A. Yes.

Q. But with that exception, Mr. Hooper, the other years from 1924 to 1930, higher prices for raw cotton prevailed? A. Yes.

Q. Now, that being so on the basis of raw cotton prices american selling prices, I suppose, were higher as well as raw cotton prices? A. Yes, they were.

Q. And it was purely an ad valorem duty in effect

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in 1930 and prior? A. Yes.

Q. And with the higher prices reigning prior to 1930, the protection in cents per pound was higher in those earlier years than after 1930 - I am speaking of purely ad valorem rates.

THE COMMISSIONER: You say "Cents per pound".

MR. KELLOCK: Yes, my lord, in cents per pound.

THE COMMISSIONER: That is specific.

MR. KELLOCK: No, working out the ad valorem duty.

THE COMMISSIONER: On the value you mean?

MR. KELLOCK: Yes. If the values were higher then ad valorem duties provide for a higher duty in cents per pound, is not that right?

THE COMMISSIONER: That stands to reason.

THE WITNESS: We will say if the value, in this Exhibit 820, if the value in 24, 25 or years you speak of was twice as high as they were in October, 1930, then your statement would be correct.

MR. McRUER: Just a moment, there would be more duty paid but the price of the article selling in Canada would be lower if the purchase price was lower, and so the duty would be relatively also.

THE COMMISSIONER: Mr. Kellock says the higher the purchase price the higher the product of the duty.

MR. KELLOCK: It is higher in cents per pound.

MR. McRUER: That does not mean anything.

MR. KELLOCK: My friend says it does not mean anything but I think it does.

purely ad valorem rates.

THE CHAIRMAN: You say "cents per pound".

MR. KELLOCK: Yes, my lord, in cents per pound.

THE CHAIRMAN: That is specific.

MR. KELLOCK: No, working out the ad valorem duty.

THE CHAIRMAN: On the value you want?

K. KELLOCK: Yes. If the values were higher cents per pound, is not that right?

THE CHAIRMAN: That stands to reason.

THE REGISTRAR: We will say if the value, in this Exhibit 880, if the value in 1914, 25 or 30% your export of was twice as high as they were in October, 1939, then your statement would be correct.

MR. MCLEAN: Just a moment, there would be more duty paid but the price of the article selling in Canada would be lower if the purchase price was lower, and so the duty would be relatively also.

THE CHAIRMAN: Mr. Kellock says the higher the

MR. KELLOCK: My friend says it does not mean

MR. MCLEAN: That does not mean anything.

MR. KELLOCK: It is higher in cents per

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BY MR. KELLOCK: Q. That is right, Mr. Hooper. A. Yes. Wait a minute, what is the question. The statement made by his lordship was correct but we can go back to yours again.

Q. My question is this: If you take the article that you are dealing with in Exhibit 820, with higher American selling prices prevailing prior to the 17th of September, 1930, then of necessity the duty in cents per pound was higher than after that date? A. We will say, provided the value of the yarn, selling price of the yarn in the United States was 49 cents a pound- yes, about that.

Q. Well then, what you are saying is that instead of the United States selling price on 6th of January, 1930, as shown by this Exhibit, of 29 cents a pound it went up as high as 49 cents a pound? A. Yes, sir.

Q. And ad valorem duty, no matter what the percentage is, would produce a higher duty in cents per pound under those circumstances? A. If the value of the yarn was 49 cents, the duty, 20%, would be $9.80, is not it?

Q. Well, you are taking a specific instance. It is higher when at 29 cents --- A. And the specific duty ---

Q.There is no specific duty? A. Ad valorem duty on the 17th October, 1930, was 8.39.

Q. I am asking you to confine your attention prior to the 17th September, 1930? A. You are asking

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Mr. M. KELLOCK: Q. That is right, Mr. Hooper.

A. Yes. Just a minute, what is the question. The statement made by his lordship was correct but we can go back to your again.

Q. My question is this: If you take the article that you are dealing with in exhibit 250, with higher selling prices prevailing prior to the 1st of September, 1950, then of necessity the duty in cents per pound was higher than after that date? A. To that I will say, provided the value of the yarn, selling price of the yarn in the United States was 69 cents a pound-yarn, about that.

Q. Well then, what you are saying is that based on the United States selling price on 6th of January, 1950, as shown by this Exhibit, of 69 cents a pound it went up as high as 69 cents a pound? A. Yes, sir.

Q. And ad valorem duty, no matter what the [illegible] would provide higher duty in cents per pound under those circumstances? A. If the value of the yarn was 69 cents, the duty, 30%, would be 20.80, is not it?

Q. Well, you are taking a specific instance. It is higher when at 69 cents --- A. And the [illegible] ---

Q. There is no specific duty? A. Ad valorem only on the item number, isn't that so?

me to make comparison.

Q. Yes, but prior to that date? A. Allright, what is it now?

Q. Well, all I am saying to you is surely perfectly obvious, taking your illustration at the American selling price instead of being 29 cents a pound as shown on this Exhibit in January 30th, at an earlier period in 1924 was 49 cents per pound, then ad valorem duties means a larger sum in cents per pound?

A. Yes, sir.

THE COMMISSIONER: You mean the same rate of duty?

MR. KELLOCK: Yes.

Q. Now, do you know why we started off in so many of these exhibits in 1930, just prior to the increase in September, 1930. I should not say we, I should say you? A. Yes, I can say why I did so, under instructions.

THE COMMISSIONER: I told you yesterday that Mr. Hooper just brings here what he is asked to bring and if you have any remarks to address about that you should address them to Mr. McRuer.

MR. KELLOCK: No, I have no remarks to address.

THE COMMISSIONER: I do not want Mr. Hooper to be put in a false position. Mr. Hooper is loaned to us by the Department.

MR. KELLOCK: I want to ask Mr. Hooper if he would be good enough to carry these exhibits on cotton yarns and fabrics and other exhibits he has prepared

Q. Yes, but prior to that date? A. Alright, what is it now?

Q. Well, all I am saying to you is merely perfectly obvious, taking your illustration at the American selling price instead of being 29 cents a pound as shown on this Exhibit in January 1934, at an earlier period in 1934 was 46 cents per pound, then ad valorem duties means a larger sum in cents per pound?

A. Yes, sir.

THE COMMISSIONER: You mean the same rate of duty?

MR. COLLETT: Yes.

Q. Now, do you know why we started off in so many of these exhibits in 1930, just prior to the increase in September, 1930. I should not say we, I should say you? A. Yes, I can say why I did so, under instructions.

THE COMMISSIONER: I told you yesterday that Mr. Hooper just brings here what he is asked to bring and if you have any remarks to address about that you should address them to Mr. Wagner.

MR. KELLOCK: No, I have no remarks to address.

THE COMMISSIONER: I do not want Mr. Hooper to be put in a false position. Mr. Hooper is loaned to us by the Department.

MR. KELLOCK: I want to ask Mr. Hooper if no

starting back to 1924? A. No, cannot do it.

MR. McRUER: That will take three months.

MR. KELLOCK: I ask that these exhibits be carried back to 1924.

THE COMMISSIONER: Well, if they can be.

THE WITNESS: I can do it on yarns and grey goods but nothing else.

THE COMMISSIONER: Will you tell me what you would show me when you have that information.

MR. KELLOCK: I would show you this, my lord, that the affect of the duty prior to the date where these exhibits start was to produce greater protection than at the point where these exhibits start.

THE COMMISSIONER: A greater protection?

MR. KELLOCK: Yes.

MR. McRUER: In regard to that, Mr. Gordon made that statement in the Witness box. I take it that he had evidence on which to substantiate his statement and it seems to me a great trespass on Mr. Hooper's time to have him go to work to work up something which Mr. Gordon must have worked up when he went into the witness box.

MR. KELLOCK: Mr. Gordon made a general statement.

MR. McRUER: No, he made a specific statement.

THE COMMISSIONER: Perhaps you could get together with Mr. Hooper and work out something that would illustrate your point but if he tells me it would take him three months to get what you ask for, why you

starting back to 1894? A. No, cannot do it.

MR. MOLTON: That will take three months.

MR. KELLOCK: I ask that these exhibits be carried back to 1894.

THE COMMISSIONER: Well, it may can do.

THE WITNESS: I can do it on Jervis and Gray Goods but nothing else.

show me when you have that information.

MR. KELLOCK: I would show you why, My Lord, that the effect of the duty prior to the date where these exhibits start was to produce greater protection than at the point where they start.

MR. MOLTON: Yes.

MR. MOLTON: In regard to that, Mr. Gordon made the statement in the witness box. I take it that he had evidence on which to substantiate his statement and it seems to me a great trespass on Mr. Hooper's time to have him go to work to work up something which Mr. Gordon must have worked up when he went into the witness box.

MR. MOLTON: No, he made a specific statement.

illustrate some point but if he tells me it would take

are coming in a little late.

THE WITNESS: It would not in the case of yarns and grey goods.

Q. How long would that take? A. A week or less.

MR. KELLOCK: It was my friend said three months.

MR. McRUER: You said all the fabrics that were shown in those statements. Now Mr. Hooper is making another statement and that is in regard to yarns and grey goods, but Mr. Gordon must have that information right readily because he made same statement before the Tariff Board.

THE COMMISSIONER: Well, if Mr. Hooper can get it in a week or less let us have it. If it is only to show me that the same rate of duty applied on dearer article produces more money than applied on cheaper article, you know that as well as I.

MR.KELLOCK: It is not simply that. It is not to show result on hypothetical basis but it is to show, firstly, that higher prices were reigning prior to this time and therefore ad valorem duty the protection was higher.

THE COMMISSIONER: What do you mean "Protection was higher"?

MR. KELLOCK: In cents per pound. That is what counts with a manufacturer. Mere average protection does not get anyone anywhere.

THE COMMISSIONER: No, but you must compare the

are coming in a little late.

Q. How long would that take? A. A week or two.

MR. KELLOCK: It was my friend said three months.

MR. MONK: You want all the fabrics that were shown in those statements. Now Mr. Hooper is making another statement and that is in regard to yarn and grey goods, but Mr. Gordon must have that information right really because he made same statement before the Tariff Board.

THE CHAIRMAN: Well, if Mr. Hooper can get it in a week or less let us have it. If it is only to show me that the same rate of duty applied on cheaper article produces more money than applied on dearer article, you have got it fully.

MR. KELLOCK: It is not simply that. It is not simply, that almost endless were required since in the manufacture of returns and invoices and [illegible]

MR. KELLOCK: In cents per pound. That is what counts with a manufacturer. More average protection does not [illegible]

home price and foreign price and then see what the protection is. In any case I have ever known I have not known manufacturers to say - give us so much money, but give us so much of a rate, and it is the rate that constitutes the protection. How can you have a sliding scale and say that the rate will be so much and value so much.

MR. KELLOCK: The witness has said that prior to 1930 the American fabric prices were higher, that the rate of duty was the same on ad valorem basis, therefore the amount of duty paid on every pound of those goods were greater.

THE COMMISSIONER: You say although the rates were lower the protection was greater than 1930.

MR. KELLOCK: Although the rate was the same the protection was greater.

THE COMMISSIONER: I am afraid for your own sake where your argument might lead to.

MR. KELLOCK: I don't ---

THE COMMISSIONER: Does it mean when the price goes high you can bring down your rate. Is that satisfactory to Canadian manufacturers? That seems to be the implication - that the present rates are all right for low prices but when prices are high they are too great and should come down.

MR. KELLOCK: When prices are high, my lord there is a different situation existing and it may be thought if, as and when those different circumstances exist it

none price and foreign price and then see what the protection is. In any case I have ever known I have not known manufacturers to say - give us so much money, but give us so much of a rate, and it is the rate that constitutes the protection. How can you have a sliding scale and say that the rate will be so much and value so much.

MR. KELLOCK: The witness was said that prior to 1930 the American fabric prices were higher, that the rate of duty was the same on ad valorem basis, therefore the measure of duty would be less [illegible] more greater.

THE COMMISSIONER: You say although the rates were lower the protection was greater than 1930.

MR. KELLOCK: Although the rate was the same the protection was greater.

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calls for different action by Parliament, but I want to be able - my friend wants to start off apparently in 1930.

MR. McRUER: I started with the year that the new increaseswere put on, condition of affairs as it was when Parliament changed the duties.

MR. KELLOCK: I suppose it is obvious that the reason that the increases were asked for at that time that the industry was suffering.

MR. McRUER: Oh, they said they were suffering.

THE COMMISSIONER: At any rate, Parliament must have thought they needed increase. You seem to think hat if the prices are better the tariff rate should be lower because ---

MR. KELLOCK: I want to get the facts first before your lordship, becau e if my friend is going to argue that a certain situation existed in 1930 and therefore that is the sort of mean or standard that all this evidence is to be measured by, I want to be able to show your lordship that any premise of that kind is faulty ecause there was a different situation existing immediately before that which led to the action of Parliament that your lordship pointed out in September of 1930.

THE COMMISSIONER: Q. Well, you are getting all you can, Mr. Hooper? A. Yes, my lord.

MR. Mcruer: I think Mr. Gordon might put himself out to cooperate with Mr. Hooper.

MR. BALLANTYNE: I do not think there is any doubt

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to the Court
CANADA

cella for different session by Parliament, but I want to be able - my friend wants to start off apparently in 1930.

MR. MONDOK: I started with the year that the new increases were put on, condition of affairs as it was when Parliament changed the rate.

MR. KELLOCK: I suppose it is obvious that the reason that the increases were asked for at that time

MR. MONDOK: Oh, they said they were suffering.

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MR. KELLOCK: I want to get the facts first before your lordship, because if my friend is going to argue that a certain situation existed in 1930 and therefo[re] that is the sort of mean or standard that all this evi[-] is to be measured by, I want to be able to show your lordship that any premise of that kind is faulty bec[ause] there was a different situation existing immediately before that which led to the action of Parliament that your lordship pointed out in September of 1930.

THE COMMISSIONER: Well, you are getting all you [want], Mr. [illegible] A. Yes, my lord.

that if Mr. Gordon has any information that he would be glad to help Mr. Hooper but Mr. ---

THE COMMISSIONER: Mr. Gordon must have that information.

MR. BALLANTYNE: He made that statement but I should not imagine he would be in a position to have these exhibits, any particular exhibit, back over a period of years.

THE COMMISSIONER: This is a question of producing new exhibits, at least new figures.

MR. BALLANTYNE: I am quite sure if Mr. Gordon has any information that will help Mr. Hooper he will be very glad to give it to him, but Mr. Hooper is supposed to be the expert on it from the Department and has more sources available to him.

MR. KELLOCK: May I take you to Exhibit 868. Will you be good enough to turn to page 5 of that Exhibit, the illustration at the foot of the page, sample No. 9, which deals ---

THE COMMISSIONER: You are on Exhibit 868?

MR. KELLOCK: Yes, on page 5 of that exhibit. Page 5, example at the foot of the page, sample No. 9 deals with 27" brocaded rayon taffeta, the date being at the top of the page, 30th of July, 1936, that applies to both illustrations on that page? A. Yes.

Q. And you have worked out there the laid-down price of that article at $1.21 per pound? A. Yes.

Q. That is brocaded rate on the plain rayon laid

that if Mr. Gordon has any information that he would be glad to help Mr. Hooper but Mr. ---

THE COMMISSIONER: Mr. Gordon must have that information.

MR. BALLANTYNE: He made that statement but I should not imagine he would be in a position to have these exhibits, any particular exhibit, back over a period of years.

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MR. BALLANTYNE: I am quite sure if Mr. Gordon has any information that will help Mr. Hooper he will be very glad to give it to him, but Mr. Hooper is supposed to be the expert on it from the Department and has more sources available to him.

MR. MERLOCK: May I take you to Exhibit 869. I will you be good enough to turn to page 2 of the exhibit, the illustration at the foot of the page, sample No. 9, which deals ---

THE COMMISSIONER: You are on Exhibit 869?

MR. MERLOCK: Yes, on page 5 of that exhibit. Page 5, sample at the foot of the page, sample No. 9 deals with 27" brocaded rayon taffeta, the date being at the top of the page, 30th of July, 1930, that applies to both illustrations on that page? A. Yes.

Q. And for that reason one would be justified in saying that article at $1.21 per pound? A. Yes.

down at cheaper rate than that - could you tell me approximately what it would be? A. At times plain has been sold at the same price as the brocaded.

Q. But that was the exception rather than the rule?, was not it? A. No, I don't think so. Recently been sold around the same price. I don't know what the plain is worth to-day. That is why it was not put in this Exhibit. No importations had come in around this time.

Q. My recollection of the evidence as to the earlier importations was that there was a spread in price between the brocaded --- A. I say there was at times and other times - just depends on the demand in the Japanesemarket, I would say.

Q. Well, at the time when there was a spread approximately what did it amount to? A. It was 10%.

Q. That would be about 12 cents on ---? A. In that case it was 12 cents off.

Q. That would be about $1.09 for the plain on that basis? A. On that basis but that is not to be taken.

Q. No, but there are times, as the evidence shows, when that difference prevailed? A. You see you cannot take quite 12 cents, not 10% on the laid-down cost because the freight rate and insurance and things like that would remain the same, the packing.

Q. What difference approximately in the price would it make? A. Well, if I could have

down at cheaper rate than that - could you tell me approximately what it would be? A. At times plain has been sold at the same price as the proceeded.

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Q. No, but there are times, as the evidence shows, when that difference prevailed? A. You see you cannot take quite 12 cents, not 10% on the laid-down cost because the freight rate and insurance and things like that would remain the same, the packing.

estimated that, Mr. Kellock, I would have given it as an example but I could not.

Q. Well, taking your 10% figure ---

THE COMMISSIONER: I cannot hear you, Mr. Kellock. There will have to be quiet.

MR. KELLOCK: Q. If you take your 10% off the item to which it applies just approximately?

A. Well, take 10 cents a pound off.

Q. 10 cents off what, $1.21 - that would be a $1.11? A. Yes.

Q. Would you look at Exhibit 867. There you have shown your computation of the Canadian mill spread, the last figure on the page on the left hand side shows the date, the 10th of January, 1936? A. Yes.

tTHE COMMISSIONER: What is the point?

MR. KELLOCK: The last item on the left hand side, 10th of January, 1936, it shows a mill spread there of $1.05. Now, if you take the $1.11 for the plain brocaded rayon, and Exhibit 867 deals entirely with plain rayon - the mill spread of $1.05 is within 6 cents of the entire Japanese laid-down selling price here including freight and insurance and duty and every-thing else, is that right? A. That is right, that is the mill spread.

MR. McRUER: The spread is too high.

THE WITNESS: That is not the cost of production.

MR. KELLOCK: No, I am comparing the mill spread as in Exhibit 867 on the 10th of January, 1936,

assumed that, Mr. Bullock, I would have given it
as an example but I could not.

. Well, taking your 10% figure ---

I cannot hear you, Mr. Bullock.

There will have to be quiet.

MR. BULLOCK: Q. If you take your 10% off the
item to which it applies just approximately?
A. Well, take 10 cents a pound off.

. 10 cents off what, $1.81 - that would be a
$1.71? A. Yes.

Q. Would you look at Exhibit 867. There you
have shown your computation of the Canadian mill spread
the last figure on the page on the left hand side
shows the date, the 10th of January, 1955? A. Yes.

. BULLOCK: The last item on the left hand side
of $1.05. Now, if you take the $1.71 for the plain
processed rayon, and Exhibit 867 deals entirely with
plain rayon - the mill spread of $1.05 is within 6 cen
of the entire Japanese laid-down selling price here
including freight and insurance and duty and every-
thing else, is that right? A. That is right, that
is the mill spread.

MR. MORDEN: The spread is too high.

THE WITNESS: That is not the cost of production.

MR. BULLOCK: No, I am comparing the mill spread

$1.05, with the laid-down price of the article as shown in Exhibit 868.

THE COMMISSIONER: Is that a fair comparison?

A. No, my lord.

MR. KELLOCK: My point is this: That the Japanese lay the article down, including raw material, freight and insurance and everything else, at $1.11, while the Canadian mill spread alone is $1.05.

THE COMMISSIONER: Well, either the Japanese article is too cheap or your mill spread is too great, that must be the deduction.

MR. KELLOCK: Or that the prices are both proper on the basis of profitable operation in both countries.

MR. McRUER: Of course, they are not the same article by a long way.

MR. KELLOCK: Exactly the same article.

MR. McRUER: We have evidence of that - they are not exactly the same.

THE COMMISSIONER: What two articles?

MR. McRUER: One is the Japanese taffeta that has been filed, and the other is Canadian taffeta, which has also been filed, and we have the evidence of buyers that they could not sell one in place of the other at all, that they are not the same article.

MR. KELLOCK: What my friend is saying, he is overlooking entirely, starting off with the same yarn to begin with, same cost to turn yards into cloth, and my friend has persisted in clinging to his idea that

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$1.05, with the laid-down price of the Kyshola at

in Exhibit 808.

THE COMMISSIONER: Is that a fair comparison?

A. No, my Lord.

MR. KELLOCK: My point is this: That the Japanese lay the article down, including raw material, freight and insurance and everything else, at $1.11, while the Canadian mill spread alone is $1.05.

THE COMMISSIONER: Well, either the Japanese article is too cheap or your mill spread is too great, that must be the deduction.

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MR. MORDEN: Of course, they are not the same article by a long way.

MR. KELLOCK: Exactly the same article.

MR. MORDEN: We have evidence of that - they are not exactly the same.

MR. MORDEN: One is the Japanese tariffs that has been filed, and the other is Canadian tariffs, which has also been filed, and we have the evidence of buyers that they would not sell one in place of the other at all, that they are not the same article.

MR. KELLOCK: What my friend is saying, he is over looking entirely, starting off with the same yarn to begin with, same cost to turn yarns into cloth, and

because Japanese article may be inferior when it gets here to the Canadian article, domesticproduct - it is the same idea, that therefore it is of a class or kind made in Canada, and the ruling of the Department is entirely against him.

THE COMMISSIONER: I do not know whether Mr.McRuer goes that far, but the evidence we got in Montreal - I cannot recollect anything else - that the Canadian article is a superior article to the Japanese article, is not that right?

MR. KELLOCK: It is better quality.

THE COMMISSIONER: Whether or not they compete is another question. They may compete,

MR. KELLOCK: The evidence is that they do.

THE COMMISSIONER: Whether or not the Department classifies the Japanese article as being one of a class or kind made in Canada is a matter that I don't know.

THE WITNESS: They do not.

MR. McRUER: A different argument altogether. Has nothing whatever to do with the point my friend is talking of. I am talking of habutai silk, which is a well known classification of silk, and I say habutai silk is not of a class or kind made in Canada because no habutai made here and evidently Mr.Watson agreed with that when he made up a sample to show to the Department to indicate it was made.

MR. KELLOCK: Now, both these exhibits deal with plain rayon. My friend mentioned habutai. May I ask my

here to the Canadian article, domestic product - it is the same idea, that therefore it is of a class or kind made in Canada, and the ruling of the Department is entirely against him.

THE CHAIRMAN: I do not know whether Mr. Hooper does that for, but the evidence we got in Mon real - I cannot recollect anything else - that the Canadian article is a superior article to the Japanese article, is not that right?

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MR. KELLOCK: The evidence is that they do.

THE CHAIRMAN: Whether or not the Department classifies the Japanese article as being one of a class or kind made in Canada is a matter that I don't know.

MR. HOOPER: They do not.

MR. MORDEN: A different argument altogether. Has nothing whatever to do with the point my Friend is talking of. I am talking of Canadian silk, which is a well known classification of silk, and I say Canadian silk is not of a class or kind made in Canada because no Canadian made here and evidently [illegible] to the Department to indicate it was made.

MR. KELLOCK: Now, both these articles deal with plain

friend if he is abandoning the contention that he put forward before this Commission in Montreal, that simply because Japanese rayon 27" was of inferior quality to the Canadian product, that he no longer now says that the Japanese product is of a class or kind not made in Canada.

MR. McRUER: I don't know what in the world my friend is talking about.

MR. KELLOCK: You know perfectly well what I am talking about.

MR. McRUER: Well, I cannot understand how you can make such a statement. You are just wasting time making it. I have no idea what my friend is talking about because I did not make any suggestions about Japanese cloths as to whether it was of a class or kind made in Canada, dealing with rayon at all. That did not come up. It came up in cottons because in cottons we classified them and we classified some of the rayons because they were brocaded, we had evidence brocaded not made here and buyers from Eatons and Simpsons said never knew it was made here.

THE COMMISSIONER: I think we can put you to one side so far as you making any contention for the time being, and Mr. Kellock can make his own case, and that is, you are showing me, independently of what Mr. McRuer may think or urge later, here are two articles - one Japanese and one Canadian, and then you were showing me comparison between Canadian mill spread and Japanese

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to the Canadian product, that he no longer now says that the Japanese product is of a class or kind not made in Canada.

MR. MONTGOMERY: I don't know what in the world my friend is talking about.

MR. KELLOCK: You know perfectly well what I am making reply.

MR. MONTGOMERY: Well, I cannot understand how you can make such a statement. You are just wasting time making it. I have no idea what my friend is talking about because I did not make any suggestions about Japanese clothing as to whether it was of a class or kind made in Canada, dealing with rayon at all. That did not come up. It came up in cottons because in cottons we classified them and we classified some of the rayons because they were brocaded, we had evidence brocaded [illegible] never knew it was made here.

THE CHAIRMAN: I think we can put you to one side so far as you making any contention for the time being, and Mr. Kellock can make his own case, and that is, you are showing me, independently of what Mr.

selling price in Canada and then you show me it competes with ours and you say you have evidence of that effect. Now, go on and build up that case.

MR. KELLOCK: That is the end of it on that particular point, my lord. My friend does not want to see it.

MR. McRUER: I do not want to see what? What is the use of talking such nonsense. I don't know what my friend means.

MR. KELLOCK: Well, I will explain it at the proper time. I am not going to argue it here.

Q. With regard to the same Exhibit 868, all your figures here are based on the present proclaimed value of the yen when you figure the currency dump, - that is right? A. Yes.

Q. That is 39.5? A. Yes.

Q. In a little over a month now there will be a new currency dump rate prevailing of 35 cents? A. Yes.

Q. So that the force of the illustration which are in Exhibit 868 will entirely disappear on the 31st of December next.

THE COMMISSIONER: Q. What rate are these based on? A. 39½.

MR. KELLOCK: Q. That is true, Mr. Hooper, is not it? A. No.

THE COMMISSIONER: What is not true?

THE WITNESS: As far as the dump - the dumping duty is taken in there at 39½, but you cannot say that

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this will lose their effect because prices may go up in Japan at that time. They have risen in the last few months.

Q. You cannot say the prices in Japan will go up in that time? A. Well, you cannot say anything about it.

Q. What I am saying - on the basis you have used for these illustrations, all thing s being equal, this is going to pass out of the picture in a few months and going to be on an entirely new basis and lower basis of duty, is not that so? A. Yes.

Q. I have taken a few of your illustrations here and I want to see the effect on the duty and the laid-down value commencing on the 1st of January, 1937, and I am taking your first sample first - that is, the cotton-back rayon satin. Would you be good enough to look at this computation and tell his lordship as to whether or not that is the way the situation will work out under the proclaimed value of the yen of 35 cents which will operate after the first of the year.

THE COMMISSIONER: Just a minute, how long does that value remain in operation?

MR. KELLOCK: For a year, my lord.

Q. And it will be correct to say, Mr. Hooper, that the change which will take place on the 1st of January, 1938, will again be a downward one so far as the currency duty is concerned.

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in Japan at that time. They have risen in the last

Yes.

Q. You cannot say the prices in Japan will go up

in that line? A. Well, you cannot say anything

about it.

Q. What I am saying - on the basis you have used

for these illustrations, all things being equal,

this is going to pass out of the picture in a few

months and going to be an entirely new basis and

lower basis of duty, is not that so? A. Yes.

Q. I have taken a few of your illustrations here

and I want to see the effect on the duty and the land-

ed value commencing on the 1st of January, 1927,

and I am taking your first sample first - that is,

the cotton-back rayon satin. Would you be good

enough to look at this computation and tell me wheth-

er or not that is the way the situation

will work out under the proclaimed value of the yen

of 35 cents which will operate after the first of the

year.

THE COURT: Just a minute, how long does

MR. KELLOCK: For a year, my Lord.

Q. And it will be correct to say, Mr. Cooper,

that the change which will take place on the 1st of

January, 1927, will again be a downward one so far as

THE COMMISSIONER: Will you show me what you compare this with.

MR. KELLOCK: The first one, headed right at the top, "Sample No. 1," and on Exhibit 868, sample No.1.

THE COMMISSIONER: That is the laid-down cost of the fabric per pound instead of $1.38 will be $1.27?

MR. KELLOCK: Yes, my lord, and the rate of duty instead of being on an ad valorem basis of 186.1 per cent. will be 164.5. Perhaps Mr. Hooper for the sake of saving time, if there is anything wrong with these computations which come to your notice later, you could let us know.

THE COMMISSIONER: You are making this an exhibit?

MR. KELLOCK: Yes. A separate exhibit.

THE COMMISSIONER: Yes, it is part of your case. I will make a reference on it to Exhibit 868.

EXHIBIT 898: Re Exhibit 868 - for 1937.

MR. KELLOCK: There are three or four of them, perhaps might be part of the same Exhibit 898.

Q. Then the next one I have, Mr. Hooper, is sample No. 4, and instead of laid-down price of the Japanese article here of $1.30, after the 1st of the year, will be $1.21, and instead of the rate of duty being 195.8 it will be 174.4, a difference of about 21% in that period.

THE COMMISSIONER: Sample No. 4 on page 2?

MR. KELLOCK: Yes.

THE COMMISSIONER: $1.30 will become $1.21 and

THE COMMISSIONER: Will you show me what you compare this with.

MR. KELLOCK: The first one, headed right at the top, "Sample No. 1," and on Exhibit 886, sample No. 1.

THE COMMISSIONER: That is the laid-down cost of the fabric per pound instead of $1.38 will be $1.27?

MR. KELLOCK: Yes, my Lord, and the rate of duty instead of being on an ad valorem basis of 186.1 per cent. will be 154.5. Perhaps Mr. Hooper for the purpose of saving time, if there is agreed upon with these computations which come to your notice later, you could let us know.

THE COMMISSIONER: You are making this an exhibit?

MR. KELLOCK: Yes. A separate exhibit.

THE COMMISSIONER: Yes, it is part of your case. I will make a reference on it to Exhibit 888.

EXHIBIT 888: No Exhibit 888 - for 1937.

MR. KELLOCK: There are three or four of them, perhaps might be part of the same Exhibit 888.

Then the next one I have, Mr. Hooper, is sample No. 4, and instead of laid-down price of the Japanese article here at $1.36, after the 1st of June next, will be $1.31, and instead of the rate of duty being 195.8 it will be 174.4, a difference of about 21% in that period.

THE COMMISSIONER: Sample No. 4 on page 2?

duty will be reduced too.

MR. KELLOCK: Yes, a drop of about 21% in the duty.

MR. McRUER: That is all providing the price does not go up in Japan in the meantime.

MR. KELLOCK: Yes; and if it goes down it will be a lot worse.

Q. Then sample No. 6, is the next one, Mr. Hooper, and the effect of the new currency rate will be that instead of the laid-down cost being $1.32 a pound it will be $1.22. Instead of the rate of duty being 191.1% it will be 168.8%, about approximately 23% of a drop. Then sample No. 9, page 5, the effect there will be that instead of Japanese article being laid down here at a cost of $1.21, including freight and everything else, it will fall to $1.12 and the rate of duty instead of being 202.9% will be 187.2%, a drop of over 15%. Sample No. 10, is the last one and there instead of the laid-down cost being $1.41, freight and duty included, it will be $1.31, and instead of the duty being 185.8% it will be 163.4%, a fall of over 22%. Mr. Hooper, just to refresh our memory, the existing Canadian rate against Japan in respect of rayons and other fabrics are still higher than the present American rate? A. Yes.

THE COMMISSIONER: You mean American rates against Japan?

MR. KELLOCK: Yes.

THE WITNESS: On rayons and mixtures, such as

not go up in Japan in the meantime.

MR. KNIGHT: Yes, and if it goes down it will be a

and the effect of the new currency rate will be that

instead of the laid-down cost being $1.82 a pound it

will be $1.82. Instead of the rate of duty being

191.1% it will be 168.8%, about approximately 25%

of a drop. Then example No. 9, page 5, the effect

there will be that instead of Japanese article being

laid down here at a cost of $1.21, including freight

and everything else, it will fall to $1.18 and the

rate of duty instead of being 208.8% will be 197.8%,

a drop of over 10%. Example No. 10, is the last one

and there instead of the laid-down cost being $1.41,

freight and duty included, it will be $1.31, and instead

of the duty being 189.8% it will be 133.4%, a fall of

present American rate?

A. Yes.

Japan?

cotton, not silk.

MR. KELLOCK: I am principally interested in rayons at the moment.

THE COMMISSIONER: What are you both referring to?

MR. KELLOCK: Rayons, my lord.

THE COMMISSIONER: Pure rayons?

THE WITNESS: Rayons and mixtures.

Q. Not mixtures of silk? A. No.

THE COMMISSIONER: It is mixture of rayon and cotton, not silk.

MR. KELLOCK: Q. Exhibit 889 which you prepared shows the import consumption into the United States from Japan, January to July, 1936, of 118,461 pounds.

(Page 12232 follows)

THE COMMISSIONER: Pardon me a moment, this just reads "Statement of imports for Consumption into United States of American from Japan, Rayon Febrics".

MR. KELLOCK: Rayon fabrics; may I have 655, please . That shows imports of Japanese rayon fabrics into Japan --

THE COMMISSIONER: No, no.

MR. KELLOCK: Into the United States, from Japan into the United States, In that period, January to July, 1936 of 118,461.

THE COMMISSIONER: That is in seven months.

MR. KELLOCK: That is in seven months, my lord. There is an Exhibit on file, exhibit 655, which I have just asked for, and you may recall the approximate figure, Mr. Hooper, which shows Japanese imports of rayon fabrics, the same material, into Canada in the same period where 161,851 pounds ? A. 161,000 ?

Q. 161,851 pounds.

THE COMMISSIONER: We had that Exhibit yesterday.

MR. KELLOCK: 655, my lord.

THE COMMISSIONER: We had it here before us yesterday.

BY MR. KELLOCK: Q. Now, the United States market, of course, is ten times as large, at least, as the Canadian market, isn't it ? A. What is this, 161,851 -- is it pounds ?

Q. That is in pounds ? A. Well, you have your mixtures in there, haven't you ?

Q. No, rayon fabrics ? A. 161,851, is that

THE COMMISSIONER: Pardon me a moment, this

OTHER MATTERS OF INTEREST TO YOU.

MR. KELLOCK: Beyon Textiles; may I have 686,

please, Mary Anne Registry of Japanese Rayon Fabrics

into Japan --

Q. Canadian-Made, so.

A. KELLOCK: Into the United Kingdom, from

Japan into the United States, in that period, January

to July, 1956 of 118,401.

THE COMMISSIONER: That is in seven months.

MR. KELLOCK: That is in seven months, my Lord.

There is an Exhibit on file, Exhibit 686, which I have

just asked for, and you may recall the mysterious

figure, Mr. Hooper, which shows Japanese Imports of

Rayon Fabrics, the same material, into Canada in the

same period where 181,851 pounds ? A. 181,000 ?

Q. 181,851 pounds.

THE COMMISSIONER: We had that Exhibit yester-

day.

MR. KELLOCK: 686, My Lord.

THE COMMISSIONER: We had it here before us

yesterday.

BY MR. KELLOCK: Q. Now, the United States

market, of course, is ten times as large, at least,

as the Canadian market, isn't it ? A. What is this,

181,851 -- is it pounds ?

Q. That is in pounds ? A. Well, you have

just sixteen in there, haven't you ?

importations into Canada ?

MR.McRUER: This includes threads, yarns, ribbons, fabrics; which are you dealing with ?

MR. KELLOCK: I am dealing with fabrics.

THE COMMISSIONER: This one deals with rayon fabrics alone ?

BY MR. KELLOCK: Q. Are there any mixtures in 889, Mr. Hooper ? A. I don't think so.

Q. Do you know ? A. There may be, but it all depends on the component of chief value. There would not be any mixtures in there, 10 per cent rayon.

Q What is that ? A. There would be no mixtures in there less than 50 per cent rayon.

Q. But you think it does include mixtures ? A. I think it does, yes.

Q. Have you 655 there ?

THE COMMISSIONER: What is 655 ?

MR. KELLOCK: 655, my lord, shows the Canadian imports from Japan of artificial silk divided into a number of things, and the fabrics down to the end of July -- they are not added here, but my addition is 161,851 pounds.

THE COMMISSIONER: Rayon fabrics alone ?

MR. KELLOCK: Yes, it includes mixtures as well, which is in the same way as your 889 does ?

A. Yes.

Q. All right, they are comparable figures; now, as I say, the United States market is just about ten times the size of the Canadian market, isn't it?

A. Yes.

ROBT. BRYDIE
CHARTERED ACCOUNTANTS
TORONTO - CANADA

Q. Well now, am I right in this, when you were giving evidence in Montreal at an earlier stage of the hearings you said that the American selling price on rayon fabrics in the United States was higher than the Canadian selling price ? A. I gave that evidence. Other people gave the same evidence.

Q. I mean, that is the fact ? A. Yes.

Q. Can you explain why, if the American market is ten times the size of the Canadian market and the American selling price of the fabric higher than the Canadian price --

THE COMMISSIONER: Of the Japanese fabric ?

MR. KELLOCK: No, the selling prices in the United States of rayon fabrics are higher than the selling prices of rayon fabrics in Canada, the market is bigger and the product brings more money; why is it under these circumstances that in the same period there should be not only a relatively -- there should be any larger importation of these Japanese fabrics into Canada than into the United States because you see the figure of importations into the United States in that period is absolutely lower than into Canada. 118,000 only got into the United States and 161,000 got into Canada, and on the basis of a market which is ten times as large as the Canadian market the figures should be not only absolutely but relatively the other way, and in addition to that the Canadian rates of duty against Japan are higher than those of the United States against Japan. Can you explain why that picture exists ? A. It appeared

Q. Well now, am I right in this, when you were giving evidence in Montreal at an earlier stage of the hearings you said that the American selling price of rayon fabrics in the United States was higher than the Canadian selling price ? A. I gave that evidence. Other people gave the same evidence.

Q. I mean, that is the fact ? A. Yes.

Q. Can you explain why, if the American market is ten times the size of the Canadian market and the American selling price of the fabric higher than the Canadian price --

THE COMMISSIONER: Of the Bemberg fabric ?

WA. CARLOCK: No, the selling prices in the United States of rayon fabrics are higher than the selling prices of rayon fabrics in Canada, the market is bigger and the product brings more money; why is it that there [illegible] ... fabrics into Canada than into the United States because you see the figure of importations into the United States in that period is absolutely lower than into Canada. 119,000 only got into the United States and 181,000 got into Canada, and on the basis of a [illegible] ... market the figures should be not only absolutely but relatively the other way, and is still true to-day the [illegible] ... of any imported fabrics ...

to me from examination of different cost sheets, or estimated cost sheets, that on certain types of fabrics the Canadian manufacturer was getting above --

BY THE COMMISSIONER: Q. Was what ?

A. Getting above --

Q. I don't understand you ? A. Getting a price which was above his usual mark-up over cost of production, and these fabrics seemed to be the types which were coming in.

Q. I don't understand you; would you repeat that to me. What is your explanation ? A. Would the reporter read the answer.

-- The Reporter read as follows:

"A. It appeared to me from examination of different cost sheets, or estimated cost sheets that on certain types of fabrics the Canadian manufacturer was getting a price which was above his usual mark-up over cost of production, and these fabrics seemed to be the types which were coming in."

Q. You began by saying the prices in the United States are higher than theyare here. If they are how does that explain it ? A. Take, for instance, cloths that are made by people known as silk manufacturers, the usual run or the general run of fabrics appear to have a higher price in the United States than they have in Canada. There are other fabrics made by Canadian manufacturers --

Q. Rayon fabrics ? A. Rayon fabrics made by Canadian manufacturers --

ROBT. BRYCE
TORONTO - CANADA

to me from examination of different cost sheets, or estimated cost sheets, that on certain types of fabrics the Canadian manufacturer was getting above --

BY THE COMMISSIONER: Q. Was what ?

A. Getting above --

Q. I don't understand you ? A. Getting a price which was above his usual mark-up over cost of production, and these fabrics seemed to be the types which were coming in.

Q. I don't understand you; would you repeat that to me. What is your explanation ? A. How'd the reporter read the answer.

-- The Reporter read as follows:

"A. It appeared to me from examination of different cost sheets, or estimated cost sheets that on certain types of fabrics the Canadian manufacturer was getting a price which was above his usual mark-up over cost of production, and these fabrics seemed to be the types which were coming in."

Q. You began by saying the mills in the United -- how does that explain it ? A. Take, for example, [illegible] silk manufacturers, the usual run or the general run of fabrics appear to have a higher price in the United States than they have in Canada. There are other fabrics made by Canadian manufacturers --

Q. Rayon fabrics ? A. Rayon fabrics made

Q. In Canada ? A. In Canada, for example, taffeta, 27 inch taffeta; their estimated cost sheet showed that the cost of production, selling cost and profit should be approximately 15 cents a yard, and they got 18, 19 and 19 1/2 cents a yard for the cloth.

BY MR. KELLOCK: Q. For how long, how long did those prices prevail ? A. 18 and 19 ?

Q. Yes ? A. There is a record showing how long that price has been obtained.

BY THE COMMISSIONER: Q. Was it during the seven months we are talking about ? A From the first of January, my lord, there was 19 1-2 cents and it was reduced until now it is 17 cents. It is still two cents above the cost of production plus their usual advance for selling cost and profit.

BY MR. KELLOCK: Q. Whose cost are you speaking about ? A. Dominion Textile.

Q. Alone ? A. In that case, yes.

Q. What are you talking about when you say the usual advance ? A. Whatever they use as a basis for estimating their costs.

Q; You are saying it is more in one case than the other ? What is the usual cost ? A. They have arrived at a figure of approximately 15 cents a yard using the ordinary advance.

Q. You mean that they have a standard a_dvance ? A. I don't know what it is, whether it is standard or not. They have shown me a cost sheet. The figure arrived at was approximately 15 cents a yard.

BY THE COMMISSIONER: Q. What had they done in

ROBT. BRYDIE

this case you are referring to? A. I say the selling price to-day is 17 cents.

Q. That is, they have added on two and a half cents ? A. They have added two cents on what they have estimated would be their selling price.

Q. Do you think that has had a tendency to let these Japanese goods in; is that your idea ? A. Yes, my lord; another factor is that in some cases where they are meeting competition of the silk mills in Canada, the other silk mills in Canada, they are not getting their full cost of production plus selling cost and profit as they have laid down in their cost sheets. Some prices may be below cost plus a reasonable advance for selling cost and profit. These prices may be ones that are lower than United States selling prices.

BY MR. KELLOCK: Q. In this figure of 15 cents you mentioned , do you know whether that involves a profit ? A. Yes.

Q. What you say is if they put the usual advance on this particular product which they put on other products which they make -- A. No, I am not saying the advance they require. I don't know what the advance is. It is one they feel they require. They costed it.

Q. Is 15 cents the cost figure only ? A. It was their cost of production, their cost of selling and an advance for profit.

Q. What you say is, Mr. Hooper, as I understand it, is that by reason of that fact in the case of the Dominion Textile Company only, and you recall that the

ROBT. BRYDIE

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Canadian Cottons make this fabric you are speaking about as well as the Dominion Textile ? A. Yes.

Q. You don't know what the situation is that prevails there ? A. You mean what their costs are ?

Q. Yes? A. I don't know and they don't know.

Q. All right, that is what you say ? A. Because I have not been able to find any costing system.

Q. As I understand you, the point you are making is that on these particular rayon fabrics which you say are coming into Canada here the Canadian price is higher than the corresponding American price for the corresponding article; is that what you mean ? A. The ones that are coming in here -- where, from Japan ?

Q. Yes, that the Canadian price on the comparable Canadian article is higher than the American selling price on the American article ? A. I did not say that, no.

Q. Then, I don't follow the point you are trying to make ? A. I said in cases where the selling prices of American fabrics were higher than those of comparable fabrics in Canada there are no importations.

Q. There are no importations ? A. Yes.

Q. Into the United States ? A. Into Canada.

Q. Into Canada ? A. Yes, but in this case here where they get an advance over the cost of production which appears to be higher than they do on the other fabrics which are lower in price here than they are in the United States they are meeting competition from Japan.

Canadian notions make this fabric you are speaking about as well as the American article ? A. Yes.

Q. You don't know what the situation is that prevails there ? A. You mean what their prices are ?

Q. Yes? A. I don't know and they don't know.

Q. All right, that is what you say ? A. Because I have not been able to find any working system.

Q. As I understand you, the point you are making is that on these particular rayon fabrics which you are coming into Canada here the Canadian price is higher than the corresponding American price for the corresponding article; is that what you mean ? A. The ones that are coming in here -- where, from Japan ?

Q. Yes, that the Canadian price on the comparable American article is higher than the American selling price on the American article ? A. I did not say that, no.

Q. Then, I don't follow the point you are trying to make ? A. I said in cases where the selling prices of American fabrics were higher than those of comparable fabrics in Canada there are no importations.

Q. Into the United States ? A. Into Canada.

Q. Into the United States ? A. Yes, but in this

Q. Now, Mr. Hooper, whether the Dominion Textile's selling price was 15 cents or 17 cents or 19 cents right from the beginning the Japanese article has come in here around 13 cents or eleven cents; isn't that a fact ? A. About 13 cents.

Q. All right, what difference does it make whether the Dominion Textile Company try to sell their article at 15 cents or 17 cents ? A. I would say it made a lot of difference. You might give two cents more when you might not feel like giving four cents.

Q. Exhibit 789 is an exhibit which shows importations into the United States; do you know whether or not in these importations -- A. There is any 27 inch taffeta ?

Q. Yes? A. No, there is not.

Q. There isn't ? A. No.

Q. It is all more expensive stuff, is it, better qualities, more expensive stuff ? A. The Japanese goods as a rule are about the same quality, aren't they?

Q. You mean to say all the Japanese range of fabrics which they make are of thesame quality as 27 inch taffeta ? A. About the same quality. The stuff I saw coming in --

Q. I am not asking what you saw ? A. Oh no, not all of it.

Q. All right; as a matter of fact, Mr. Hooper, Japan can make fine goods that compare in quality with any place in the world, don't they ? A. No.

Q. You do not agree with that ? A. No, I do not agree with that.

Q. All right, what difference does it make whether the Dominion Textile Company try to sell their cloth in Canada or in anywhere else?

A. I would say there would be a difference.

Q. There isn't?

A. No.

Q. It is all more expensive stuff, is it, better fabrics which they make are of thereby quality as 27 inch taffeta?

A. About the same quality as 27 inch taffeta?

Q. I am not ask ME what you saw?

A. No, not all of it.

Q. All right; as a matter of fact, Mr. Cooper, they can make fine goods that compare in quality with any place in the world, couldn't they?

A. No.

Q. You agree with this to this extent that Japanese manufacturers are not limited in the articles they produce to inferior grades of merchandise ? A. No, they make better grades of merchandise.

Q. And the grade that they do make, they make first quality; they are not all sub-standard goods. That is not what you are trying to say ? A. When you talk about first quality you generally talk about first quality in a mill. It is pretty hard to say whether first quality --

BY THE COMMISSIONER: Q. You must mean what would be called first quality in Canada . Otherwise you are without point. What about that, are they making such goods as would pass as first quality in Canada ? A. I have only seen one fabric that I considered to be first quality, that compared to a product, a comparable product made in some other country, and that was tie silk. They are doing a very good job on tie silk.

BY MR. KELLOCK: Q. You are speaking of stuff you have seen coming into Canada ? A. No, in Canada and the United States.

Q. What about the stuff they are shipping into Australia ? A. Well, I did not see that.

Q. You have not seen it ? A. No. They do have some nice patterns.

Q. Isn't it true that Japan took the Australian market away from England largely ? A. Isn't it true ?

BY THE COMMISSIONER: Q. Just a minute now; is that a question of quality ? A. I don't think so,

. You agree with this to this extent that Japanese
manufactures are not limited in the articles they pro-
duce to inferior grades of merchandise ? A. No, they
make better grades of merchandise.

Q. And the grade that they do make, they make first
quality; they are not all sub-standard goods. That is
not what you are trying to say ? A. When you talk
about first quality you generally talk about first qua-
lity in a mill. It is pretty hard to say whether first
quality --

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without point. First about the t, are they selling such
goods as would pass as first quality in Canada ?

. I have only seen one fabric that I considered to be
first quality, that compared to a product, a comparable
product made in some other country, and that was the
silk. They are doing a very good job on the silk.

BY MR. KERLOCK: Q. You're speaking of stuff you
have seen coming into Canada ? A. No, in Canada
and the United States.

Q. What about the stuff they are shipping into
Australia ? A. Well, I did not see that.

Q. You have not seen it ? A. No. They do
[illegible]

Q. Isn't it true that Japan took the Australian
[illegible]
?

BY THE CHAIRMAN: Q. Have a right [illegible]

my lord.

MR. KELLOCK: I intended it that way.

THE WITNESS: The Canadian manufacturer can still ship printed rayons to England from here.

BY THE COMMISSIONER: Q. What is that ? A. The Canadian manufacturer ships printed rayons from Canada to England.

Q. Just a minute; Mr. Kellock asked you whether you knew that Japan is taking the Australian market away from England. You must mean the market in rayon fabrics ?

MR. KELLOCK: Yes, my lord.

BY THE COMMISSIONER: Q. What about that ? A. To some extent, yes.

BY MR. KELLOCK: Q. They are not doing thay with sub-standard goods, are they ? A. I don't know that Great Britain can print rayon fabrics that would even compete with the Japanese.

Q. You mean that even Great Britain cannot make -- A. I don't know if the finished product might be as good, I don't know. When you take the example I have given you that the Canadian manufacturers ship printed rayons to Great Britain there must be a market in Great Britain for printed fabrics.

Q. Yes, but to what extent,as compared with the existing market in Great Britain,are Canadian manufacturers shipping into Great Britain ? What share of the British market have Canadian manufacturers got in rayon fabrics ? A. Of printed rayon fabrics ?

Q. No, all rayon fabrics ? A. I don't know.

ROBT. BRYDONE
TORONTO - CANADA

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ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
TORONTO - CANADA

Q. Well, I will take your illustration, if you like ? A. I don't know one or the other.

BY THE COMMISSIONER: Q. Well, can you find out what quantity of printed rayon fabrics, or of rayon fabrics is exported from Canada to the United Kingdom in any period, say at this period, for instance, seven months ? A. Yes, my lord.

Q. Without any great trouble? A. I think I have the information.

Q. Well, all right.

BY MR. KELLOCK: Q. Can you show the share of the British market that it represents ? A. No, I cannot.

Q. You cannot do that ? Well, Mr. Hooper, your own exhibit 887, shows there is now coming into Canada a considerable variety of goods which is not merely --

THE COMMISSIONER: 887, you say ?

MR. KELLOCK: Yes, my lord, which si not merely plain and brocaded taffeta; isn't that right ? A. That is right.

Q. We are now getting striped rayon, check rayon, fancy printed brocaded rayon, rayon plaids, fancy rayon, rayon moire and Bemberg georgette crepe. Those are all varieties in addition to the plain and brocaded rayon taffeta; is that right ? A. That is right.

Q. Well now, I would like to understand your explanation, Mr. Hooper. I would like to make sure I do understand your explanation as to why it is that the Japanese are able to lay down in Canada a greater volume

like ? A. I don't know one or the other.

BY THE COMMISSIONER: Q. Well, can you find out who's quantity of printed rayon fabrics, or of rayon fabrics is expanding from period to period, for the months ? A. Yes, my lord.

. Without any great trouble? A. I think I have the information.

. Well, all right.

BY MR. KNIGHT: Q. Can you show the share of the Bradford market that it represents ? A. No, I cannot.

Q. You cannot do it ? Well, Mr. Hooper,

Canada a comparable variety of goods which is sold mostly --

THE COMMISSIONER: Sir, you say ?

MR. KNIGHT: Yes, my lord, which is not mostly

is right.

A. We are now getting striped rayon, check rayon, fancy printed brocaded rayon, rayon plaids, fancy rayon taffetas; is that right ? A. That is right.

variations in addition to the plain and brocaded rayon rayon moire and dobbery geometric crepe. Those are all

plication, Mr. Hooper. I would like to make sure I un-

understand your explanation as to why it is that the

of rayon fabrics in the same period than were able to get into the United States, as against the higher Canadian rate of duty ? A. If you look at that exhibit --

Q. Which one ? A. 887, you will see most of the fabrics coming in are rayon taffetas.

Q. Of course, 887 is limited from the 24th of June to the 24th of September ? A. But if you take the entries from the 1st of the year you will find it mostly rayon taffeta.

Q. 887, Mr. Hooper, does show that the variety of fabrics is broadening out from what it was in the earlier days of the year 1936; is that right ? A. Broadening out, but the quantities are quite small.

Q. It takes a little time, doesn't it, to open up new channels of trade and actually get lines going in a new country ? A. Yes, but when they get samples here they ought to know whether they can merchandise the cloth.

Q. They are certainly beginning to come in in a much wider variety than when we went into this subject in May and June? A. Oh yes, they are.

MR. McRUER: Are these quantities on these articles any more than enough that would do for samples? A. It would depend, Mr. McRuer, on how many salesmen they had.

Q. How many people they sent samples to ? A. Sent samples to.

BY MR. KELLOCK: Q. Well, here is an illustration; in August and September of this year there was

33,480 yards of check rayon came in. That would provide quite a few samples for a lot of travelling men.

THE COMMISSIONER: Was that more than came in in June and July ?

MR. KELLOCK: The June and July figure is not here, my lord, for that particular variety.

THE WITNESS: That check rayon would compete with a fabric made by the Canadian Cottons.

BY MR. KELLOCK: Q. Check rayon made by Canadian Cottons ? A. Yes.

Q. What approximately a yard does the Canadian Cotton product sell for ? A. I don't know offhand. I have that information. They had a cost sheet made up for it but I don't remember it.

Q. Well, you don't , Mr. Hooper, or do you adopt my friend's suggestion that the 36,480 yards of check rayon which came in here in the two months, August and September of this year would simply be for samples ? A. No, I don't think Mr. McRuer was pointing to that one.

Q. He did not have that in his mind.

MR. McRUER: There is a whole multitude of smaller ones.

BY THE COMMISSIONER: Q. It would appear from this exhibit -- Take for instance, the first item, plain rayon taffeta; there was more of it came in in July than in August or September. Of course, September only goes down to the 24th ? A. I believe the invoices are in, my lord. You will notice as a rule the shipments come once a week from Japan. I think they are in

480 yards of cheap ribbon came in. That was in p-
vide quite a few samples for a lot of travelling men.

THE COMMISSIONER: Was that more than came in in
June and July ?

MR. BROWN: The June and July figure is not i
ry long, for that particular variety.

a fabric made by the Canadian cottons.

BY MR. ROBSON: Q. Check upon made by Canadi
cottons ? A. Yes.

Q. What approximately a yard does the Canadian
Cotton product sell for ? A. I don't know of-
hand. I have that information. They had a coat sheet
made up for it but I don't remember it.

Q. Well, you don't , Mr. Hooper, or do you adopt
my friend's suggestion that the 96,480 yards of cheap
ribbon which came in here in the two months, August and
September of this year would simply be for samples ?

A. No, I don't think Mr. Brown was putting so that

Q. He did not have that in his mind.

MR. BROWN: There is a whole multitude of small

BY THE COMMISSIONER : Q. It would appear from this
exhibit -- Take for instance, the first item, plain
ribbon taffeta; there was more of it came in in July
than in August or September. Of course, my inquiry only

A. I believe the invoic
in, eg-Lock. We will notice as a rule the ship-

for September.

Q. Then, there was very much less in September than earlier. That is, it is not a fact to say they kept on broadening out?

MR. KELLOCK: I did not mean each particular variety kept on broadening out, but that the varieties as shown on page 3, my lord -- you see, the number of varieties broadened out.

THE COMMISSIONER: The number of varieties.

MR. KELLOCK: Yes, my lord, that is what I meant. Well, Mr. Hooper, I have not yet got, or I do not yet understand that I have your explanation as to why there should be this volume of Japanese imports into Canada when the volume into the United States is lower while the market is much wider, and the Canadian rates of duty are higher ? A. I have given it.

Q. You point merely to the fact that in your view it is due entirely to the 27 inch rayon taffeta ? A. No, I said that is one I had examined and I saw the Canadian Cottons estimated cost on that.

Q. The Dominion Textile ? A. No, Canadian Cottons estimated cost.

Q. That is one explanation; now, have you anything else ? A. And they have also costed satin; they have also costed the check rayon, or the plaid rayon, and if their costs are on the same basis as the taffeta that may be the explanation.

Q. Now, can you add anything to that, or is that your explanation ? A. I don't know that I could find out what their actual cost of production was.

Q. Then, there was very much less in September earlier. That is, it is not a fact to say they kept on broadening out?

MR. DENNISON: I did not mean each particular variety kept on broadening out, but that the varieties as shown on page 3, my lord -- you see, the number of

THE COMMISSION: The number of varieties.

MR. [illegible]: Yes, my lord, [illegible] I think, Mr. Hooper, I have not yet got, or I do not yet understand that I have your explanation as to why there should be this volume of Japanese imports into Canada when the volume into the United States is lower while the market is much wider, and the Canadian rates of duty are higher ?

A. I have given it.

Q. You point merely to the fact that in your view it is due entirely to the 27 inch rayon taffeta ?

A. No, I said that is one I had examined and I saw the Canadian Cottons estimated cost on that.

Q. The Dominion Textile ? A. No, Canadian Cottons estimated cost.

Q. That is one explanation; now, have you any-

A. I don't know that I

Q. I am not suggesting that ? A. If I could I might be able to give an explanation, but it would appear to me that is the explanation.

Q. I take it, so far as you are able to say to-day, that is your explanation ? A. Yes. There are some fabrics here, you will notice, I don't know whether we make brocaded rayon satin. I don't think there is a fancy printed brocaded rayon made here.

Q. My r collection is as to the brocaded rayon satin that it is made here; that is my recollection.

MR. McRUER: There was a difference in the evidence about that.

THE WITNESS: This is satin, this is a new one.

BY MR. KELLOCK: Q Bemberg georgette crepe is made here, isn't it ? A. Is it ?

Q. That was my understanding; do you know ? A. Who makes it ?

MR. McRUER: Who makes it ?

MR. KELLOCK: I understand Grouts make it.

THE WITNESS: They import the yarn and make it here ?

MR. KELLOCK: So I understand.

MR. McRUER: How long have they been making it ?

MR. KELLOCK: I cannot tell you.

MR. McRUER: Because Bemberg is acetate yarn.

ASSISTANT SECRETARY RENE: No.

THE WITNESS: That is different.

BY MR. KELLOCK: Q. Mr. Hooper, I would like to ask you this; do you think that part of the explanation, at least, as to why the United States do not get more

Hooper

A. I'd like to.

Q. I see. Is there an explanation, but it would appear to be one I -- the explanation.

A. I think it, so I -- as you are able to get the explanation ?

Q. Then, that is your explanation ?

A. Yes. There are some factors here, you will notice. I don't think

. Is anything in as to any [illegible]

certain that it is [illegible] that is not [illegible].

MR. MORRIS: There was a difference in the evidence about that.

THE [illegible]: This is certain, only is [illegible].

BY MR. SELLECK: Q Members recognize other [illegible]

[illegible] ?

[illegible] ?

Q. Who makes it ?

A. I understand Grants make it.

[illegible]

[illegible]

[illegible]

Japanese rayons is due to any method of appraisal they have of goods coming in ? A. No. The reason why they do not get any more rayon over there is simply because the Japanese market is too far away and they cannot follow the trend and demand of the United States market by placing orders from four or five months ahead of time. They won't take that chance.

Q. Well, the Canadian market isn't any further away than the United States market ? A. Well, one thing is they do not use 27 inch rayon taffeta over there for coffins.

Q. They do not use it for anything ? A. No.

Q. Did not the gentleman who served his apprenticeship in Sears Roebuck say he bought that laagely and that Sears Roebuck had quite a demand for it with, as he called it, his lower class customers; wasn't that what he said ? He was very familiar with it, you know? A. Was he ?

Q. You do not remember that ? Perhaps you weren't there ? A. I was there, but I do not remember him saying anything about 27 inch taffeta.

Q. I am wondering because you say now 27 inch rayon taffeta does not come into the United States at all, and this gentleman , if my recollection is right, said he was very familiar with it, and sold it, and he was with Sears Roebuck ? A. Well, the demand must have changed. This 27 inch taffeta is a Japanese fabric. I mean, they brought the fabric out and introduced it into Canada, and if they tried to introduce it in the United States it did not go over.

Tapanese rayons is due to any method of appraisal they have of goods coming in ? A. No. The reason why they do not get any more rayon over there is simply because the Japanese market is too far away and they cannot follow the trend and demand of the United States market by placing orders from four or five months ahead of time. They won't take that chance.

Q. Well, the Canadian market isn't any further away than the United States market ? A. Well, one thing is they do not use 27 inch rayon taffeta over there for men's.

Q. They do not use it for anything ? A. No.

Q. Did not the gentleman who served his apprenticeship in Sears Woodbook say he bought that laundry and that Sears Woodbook had quite a demand for it with, as he called it, his lower class customers; wasn't that what he said ? He was very familiar with it, you know? A. Was he ?

Q. You do not remember that ? Perhaps you weren't there ? A. I was there, but I do not remember him saying anything about 27 inch taffeta.

Q. I am wondering because you say now 27 inch rayon taffeta does not come into the United States at all, and this gentlemen , if my recollection is right, said he was very familiar with it, and sold it, and he was with Sears Woodbook ? A. Well, the demand must

Q. Yes, but both Dominion Textile and Canadian Cottons were making 27 inch rayon taffeta prior to the first of January this year ? A. Oh yes, they made the fabric after the Japanese brought it into Canada years ago.

Q. What you say is the Japanese originated it ? A. Yes, originated it.

Q. Let me come to this, Mr. Hooper; as you have said the Canadian rates still existing against Japan are higher than the present American rates against Japan, and in saying that, of course, we have to include in the Canadian duties the currency dump by reason of the depreciated Japanese currency; is that right ? A. That is right.

Q. And if , however, these Japanese goods are brought in here on consignment the currency dump does not apply; is that correct ? A. It applies if the goods are sold to the purchaser in Canada at less than the price at which he could import them direct .

Q. What is that again ? A. Special duty may apply by order of the Minister if the goods are purchased or sold in Canada at a lower price than they purchaser in Canada could import the goods direct from Japan.

Q. That is, if the -- A. In other words, it does not make any difference; the selling price has got to be the same in any case.

Q. If the importer in Canada sells them at a lower price than what ? A. Than the purchaser could import the goods direct, the purchaser, that is

POST. PAYPIE
CANADA

the man the importer sells to, could import the goods direct from Japan.

BY MR. McBRIDE: Q. And pay the duties ? A. And pay the duties.

Q. So that the cost to the purchaser is the same whether he buys them from the man who sells on consignment or imports direct ? A. Yes.

Q. Or otherwise the usual dumping duty would apply ? A. Otherwise application would be made to the Minister for an order to apply dumping duty.

BY MR. KELLOCK: Q. We have had it in evidence from the gentleman who works with Mr. Fisher, and who said he was Mr. Fisher for a little while -- what is his name, Kiel, that when that concern brings in, and it does bring in these goods into Canada on consignment, they do not pay any currency dump ? A. That is right. The goods have not been sold when he brings them in.

BY THE COMMISSIONER: Q. You mean they are still in bond ? A. They are on consignment. They are still the property of the exporter. They are only consigned to Fisher. When he sells these goods to any one in Canada he cannot sell at a lower value than that as though the purchaser in Canada had imported the goods direct.

BY MR. KELLOCK: Q. Yes, but he gets them in here and he sells them and he does not pay any currency dump ? A. Right.

Q. How does anybody ever catch up with Mr.Fisher if there is any complaint about the basis on which he sells ? A. Oh, I catch up with Mr. Fisher once

direct from Japan.

BY MR. NORMAN: Q. And pay the duties ? A. And pay the duties.

Q. So that the cost to the purchaser is the same whether he buys them from Canada or imports direct ?

A. Yes.

Q. Or otherwise the usual dumping duty would apply ?

A. Otherwise application would be made to the Minister for an order to apply dumping duty.

BY MR. MACLOCK: Q. We have had it in evidence from the gentleman who was Mr. Vickery, and would be was Mr. Hafer for a little while -- what is name, Kiel, that when they concern bringing in, and if they bring in these goods into Canada on consignment, they do not pay any currency dump ? A. That is right. The goods have not been sold when he brings them in.

in bond ? A. They are on consignment. They are still the property of the importer. They are only consigned to Hafer. When he sells these goods to any one in Canada he cannot sell at a lower value than that as though the purchaser in Canada had imported the goods direct.

BY MR. MACLOCK: Q. Yes, but he gets them in

time ? A. Right.

Q. How does anybody ever catch up with Mr. Hafer

in a while in the department and see how he is doing.

Q. Now, he gave evidence, Mr. Hooper, and I want to know the fact; he gave evidence that he brought, and he did bring in Japanese goods, rayon, on consignment and he paid no currency dump duty ? A. That is right, and he has never sold the goods at a lower price to any purchaser in Canada than if the purchaser had imported the goods direct.

Q. Then, he puts the equivalent of the currency dump in his pocket ? A. Sure, or sends it to Japan. It does not make any difference. We are not interested.

Q. So if I send over to Japan and buy outright some Japanese goods the Canadian Government gets from me the benefit of the currency dump duty, but if Mr. Fisher brings them in on consignment as long as Mr. Fisher sells at the same price I have to pay he puts it into his pocket ? A. Yes.

Q. So the profitable way to do, to carry on that business, is not to buy but to bring the stuff in here on consignment from the standpoint of the importer ? A. Yes, provided you can get the Japanese to trust you.

Q. All right, that is clear.

BY THE COMMISSIONER: Q. What cases does the currency dump apply in ? A. When there is a selling price to a purchaser in Canada --

Q. Under the Act when does it apply; does it begin to apply only when there is a difference between the home market value -- A. The value for

a while to the department and see how he is doing

Now, we have evidence, Mr. Hooper, and I want to know the fact; We have evidence that he brought, and he did bring in Havana goods, namely, on consignment and he paid no customs duty ? A. No, in fact, and he has never sold the goods at a lower price to any purchaser in Canada than if the purchaser had imported the goods direct.

Then, he puts the equivalent of the customs duty in his pocket ? A. Sure, or sends it to Japan. It does not make any difference. We are not interested.

So if I send over to Japan and buy cutlery for the benefit of the customs duty, but if Mr. Fisher brings them in on consignment as long as Mr. Fisher sells at the same price I have to pay he puts it into his pocket ? A. Yes.

So the profitable way to do, to carry on in here on consignment from the standpoint of the importer ? A. Yes, provided I can get the lines to trust you.

All right, that is clear.

Under the act when does it say; does it

special duty and the selling price to the purchaser in Canada.

MR. KELLOCK: Is this the same, it applies on the difference between the current exchange rate, 29 cents, and the proclaimed value of 39.5 ?

THE COMMISSIONER: When does it apply ?

MR. KELLOCK: In every case when goods are bought outright.

BY THE COMMISSIONER: Q. That is regardless of the market value in Japan ? A. Yes.

BY MR. KELLOCK: Q. There is no way of checking the market price in Japan ? A. There is no way.

Q. You don't attempt to do it ? A. No.

Q. You have no machinery ; so then this is true if I buy from Japan to-day a consignment of goods outright, paid for it outright, I am the purchaser and I have got to pay to the government the difference between the exchange value of the yen, 29 cents and the proclaimed value, 39.5, if I do it that way ?

A. Yes.

Q. And if Mr. Fisher or anybody else brings the stuff in on consignment, take it into his warehouse and then sells to me I pay the same price but Mr. Fisher puts the currency duty in his pocket whereas in the other case the Dominion Government gets it ?

A. That is right.

THE COMMISSIONER: Mr. Hooper does not know who puts it in his pocket .

THE WITNESS: No.

MR. KELLOCK: That is true.

THE WITNESS: It may be the owner of the goods,

ROBT. BRYDIE
TORONTO

special duty and the selling price to the purchaser in Canada.

MR. KNELLER: Is this the case, it applies on the difference between the current exchange rate, 29 cents, and the proclaimed value of 32.5 ?

THE COMMISSIONER: When does it ap ly ?

MR. KNELLER: In every case when goods are bought outright.

BY THE COMMISSIONER: Q. That is regardless of the market value in Japan ? A. Yes.

MR. KNELLER: Q. There is no way of ascertaining the market price in Japan ? A. There is no way.

Q. You don't attempt to do it ? A. No.

A. You have no machinery ; so then this is true if I buy from Japan to-day a consignment of goods outright, but if I am to pay to the government the difference between the exchange value of the yen, 29 cents and the proclaimed value, 32.5, if I do it that way ?

A. Yes.

Q. And if Mr. Fisher or anybody else brings the stuff in on consignment, take it into his warehouse and then sells to me I pay the same price but Mr. Fisher puts the currency duty in his pocket whereas in the other case the Dominion Government gets it ?

A. That is right.

MR. KNELLER: Mr. Bonner does not know his

[illegible]

[illegible]

I don't know.

BY MR. KELLOCK: Q. Mr. Fisher may get it or the Japanese ? A. Or they may go fifty fifty.

Q. Or 75 - 25 ? A. But the Canadian manufacturer isn't in any way penalized on account of that.

Q. The Canadian manufacturer, well, all right ? A. He gets the same protection, the Canadian Manufacturer.

Q. Well, we will argue that later. Mr. Hooper, I want to hafe you look at Exhibit 888 again.

THE COMMISSIONER: Well, we will adjourn for a few minutes now.

-- The Commission adjourned for a short recess.

-- On resuming.

BY MR.KELLOCK: Q. Mr. Hooper -- A. Mr. Kellock, talking about consignments I would like to read Section 110, subsection 2 of the Customs Act. It reads:

> "In the case of goods shipped to Canada on consignment, when such goods have not been sold by the exporter thereof prior to their arrival in Canada, the owner of his agent or consigned shall deliver to the collector such documents and information as he requires, including statements showing the terms and conditions on which the goods are to be sold, accounted for, or disposed of, in Canada, as an aid in the appraisement of such consigned goods."

THE COMMISSIONER: As an aid in appraisal; that must mean appraisal for duty purposes ? A. For special duty purposes, my lord, or in some cases regular

"In the case of goods shipped to Canada on consignment, when such goods have not been sold by the exporter thereof prior to their arrival in Canada, the owner of his agent or consignee shall deliver to the collector such documents and information as he requires, including statements [illegible] goods are to be sold, accounted for, or disposed of, in Canada, as an aid in the supervisement of such consigned goods."

duty purposes.

Q. Anyhow it is for the purpose of appraisal ? A. In following it right through until it is finally sold in Canada.

Q. Do I understand the appraisal price for duty in view of what you said a while ago must be the same as if the currency dumping value is in it ? A. No, in the case of textiles the value for duty is the fair market value as sold for home consumption. That is the value which they certify to on the invoice or in other cases it might be the value under Section 43 or some other section of the law.

BY MR. KELLOCK: Q. In the case of Japan it is simply the invoice value ? A. It is the value certified to.

Q. The value certified to on the invoice ? A. By the exporter.

Q. There is no checking of that ? A. No.

BY THE COMMISSIONER: Q. Read that again; is this section a general one covering all importations? A. All goods on consignment; the charge to the collector is to check up on those.

Q. I notice the importer must furnish you among other things with his own selling price ? A. Yes.

Q. That is for the purpose of your department fixing the appraisal value ? A. For special duty purposes in some cases, in the case of textiles, yes.

Q. Read it again ? A. "In the case of goods shipped to Canada on consignment, when such goods have not been sold by the exporter thereof prior to

their arrival in Canada, the owner or his agent or consignee shall deliver to the collector such documents and information as he requires, including statements showing the terms and conditions on which the goods are to be sold, accounted for, or disposed of, in Canada, as an aid--"

Q. As what ? A. As an aid.

Q. As an aid to -- A. --"in the appraisement of such consigned goods."

Q. That must mean appraisement for duty purposes? A. In some cases, yes, my lord.

Q. You are reading the Act there and it does not say some cases ? A. It applies in some cases.

Q. As an aid in the appraisement of -- A. Of such consigned goods.

Q. Read the rest of it ? A. That is all, my lord.

BY MR. KELLOCK: Q. In the case of Japan, Mr. Hooper, the only appraising that is done in Canada on any value which appears on any of the documents in connection with the shipment is the certificate of the importer that the invoice price is not less than the fair market value in the country of export ? A. Yes.

Q. But you take his word for that ? A. We take his word for it.

Q. So in the case of Japan the only duties that are collected are the 36 per cent ad valorem, the 40 cents per pound and the currency dump? A. Yes.

BY THE COMMISSIONER: Q. 36 per cent ad valorem on this certified price you are referring to ? A. Yes.

their arrival in Canada, the owner or his agent or consignee shall deliver to the collector such documents and information as he requires, including statements showing the terms and conditions on which the goods are to be sold, accounted for, disposed of, in Canada, as an aid--"

Q. As an aid to what ? A. As an aid.

Q. As an aid to -- A. --"in the appraisement of goods subject to duty."

Q. That must mean appraisement for duty purposes A. In some cases, yes, my lord.

Q. You are reading the act there and it does not say some cases ? A. It applies in some cases.

Q. As an aid in the appraisement of -- A. Of goods subject to duty.

Q. Read the rest of it ? A. That is all, my lord.

BY MR. MCILOCK: Q. In the case of Japan, Mr. Hooper, the only appraising that is done in Canada on any value which appears on any of the documents in connection with the shipment is the certificate of the importer that the invoice price is not less than the fair market value in the country of export ? A. Yes.

Q. But you take his word for that ? A. We take his word for it.

Q. So in the case of Japan the only duties that are collected are the 35 per cent ad valorem, the 3 cents per pound and the currency dump? A. Yes.

my lord.

Q. And the currency dump --

MR. KELLOCK: The difference between 29 cents and 39.5.

BY THE COMMISSIONER: Q. I do not see how anything in the Act allows for the doing away of the currency dump.

MR. KELLOCK: It doesn't, my lord; the currency dump, Mr. Hooper, it doesn't apply in the case of consignment goods ? A. No, only when the goods are sold at less than what they would have cost --

Q. That is only where -- A. Where the purchaser in Canada had imported the goods direct.

Q. His lordship wants to know what is the authority for not applyint the currency dumping duty on consignment goods ? A. Because there is no selling price at the time of importation.

Q. You cannot do it ? A. No, not at the time of importation.

THE COMMISSIONER: I am still unconvinced.

BY MR. KELLOCK: Q. Mr. Hooper, the Department does not do it and the importer that appeared before the Commission does not pay it.

THE COMMISSIONER: Well, you see that section was read. I don't know for what purpose. You say it does not apply to the case before us and it says this information shall be furnished to the Customs Department for the purposes of appraisal, and the only reason why the Customs Department wants an appraisal is to levy duty on that.

by Jute.

Q. And they certainly both —

MR. KELLOCK: The difference between 21 cents and

5 p.c.

BY THE COMMISSIONER: Q. I do not see how anything in the Act allows for the doing away of the currency dump.

Q. KELLOCK: It doesn't, my Lord; the currency dump, Mr. Hooper, it doesn't apply in the case of consignment goods ? A. No, only when the goods are sold at less than what they would have cost --

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MR. KELLOCK: But there is a difference, my lord, of course --

THE COMMISSIONER: I say why read it at all if it does not apply to textiles?

THE WITNESS: In the case of textiles it is the appraisal for special duty purposes.

Q. What do you mean by special duty? A. If the selling price to the purchaser in Canada is less than the fair market value.

Q. How do you get away on account of that section from the dumping duty? I think you had better look at that, Mr. McRuer, it is a matter of law.

A. You can get away from it if the selling price to the purchaser in Canada is higher than the fair market value or equal to the fair market value plus all charges incurred after shipment.

Q. After all, the currency dumping duty is in addition to the value for appraisal; that is all it is? A. Yes.

MR. KELLOCK: Yes.

THE COMMISSIONER: If it is there anyhow even if you do not nominate it as such, if it is in the value for appraisal, alright; otherwise where is there justice done? Do you see what I mean? If the value for appraisal is high enough to include what would be the currency dumping item in the case of another importer it is alright. If it is not there there is something in the practice I do not understand.

(page 12250 follows)

of Canada --

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MR. KELLOCK: Yes.

THE COMMISSIONER: If it is there anyhow even if you do not nominate it as such, it is in the va for appraisal, right; otherwise where is there gone? Do you see what I mean? If the value for is high enough to include what would be the dumping item in the case of another importer it is

(Case here rests)

MR. KELLOCK: It cannot be there, my lord, because wherever there is a price on an invoice then the currency dump applies absolutely and automatically as an additional duty which is equal to the invoice price at 29 cents.

THE COMMISSIONER: You call it in addition to the duty?

MR. KELLOCK: Yes.

THE COMMISSIONER: Is it not an additional factor in increasing the valuation for duty?

MR. KELLOCK: No, it is an additional duty in every case.

THE COMMISSIONER: The rate of exchange, we will say, is -- what are the rates?

MR. KELLOCK: It is the difference between the normal currency rate which is approximately 29 cents, and the proclaimed value of 39.5.

THE COMMISSIONER: A difference of 10 cents. Is 10 cents levied as a duty on the article?

MR. KELLOCK: Yes, Exhibit 868 shows it, my lord.

THE COMMISSIONER: I wish you would both look into this more fully from the point of view of what the law is. We are just now taking evidence as to what the duty is. I am not convinced that the dumping duty is entirely eliminated. It may not be visible, but I am not convinced it is not there somewhere in the case of goods brought in by an importer and then resold because to whom do Fischer & Company sell? They sell to the trade, do they not?

THE WITNESS: They sell to manufacturers or

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THE COMMISSIONER: You call it in addition to the duty?

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MR. [illegible] Yes, it [illegible] duty in every case.

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[illegible]: They call it [illegible]

to the trade.

THE COMMISSIONER: And if that same manufacturer brought in the goods himself he would pay more duty?

THE WITNESS: No, he would pay the same price that Fischer sold the goods to him at.

THE COMMISSIONER: But there would be less duty collected on it?

THE WITNESS: Yes.

THE COMMISSIONER: I would like to see that worked out more thoroughly.

BY MR. KELLOCK: Q. In the case of goods coming in on consignment, there is no value on the invoice at all. A. There is no invoice price.

THE COMMISSIONER: I can understand therefore why that provision is in the Act that an importer must give the department all this information so that they may arrive at an appraisal value.

MR. KELLOCK: As I understand the section, it is directed to this situation, not to the currency dump at all, but to the special duty, which is the difference between the government's price and the fair market value.

THE COMMISSIONER: Yes, but you see you are begging the question. If you begin by saying there is no special duty in this case because you take the certificate of the exporter as final, well then the section is inoperative entirely. So what is the use of reading it, but I am not convinced that it is inoperative, and I would like you and Mr. McRuer to speak to me later about it.

THE WITNESS: Subsection 5 of section 6 of the Customs Tariff provides against evasion of special duty:

THE COMMISSIONER: And if the same manufacturer brought in the goods himself he would pay more duty?

THE WITNESS: No, he would pay the same price that Fischer sold the goods to him at.

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THE WITNESS: Yes.

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"(5) If at any time it appears to the satisfaction of the Minister that the payment of the special duty by this section provided for is being evaded by the shipment of goods on consignment without sale prior to such shipment, the Minister may in any case or class of cases authorize such action as is deemed necessary to collect on such goods or any of them the same special duty as if the goods hadbeen sold to an importer in Canada prior to their shipment to Canada."

THE COMMISSIONER: That would help to elucidate the point.

MR. KELLOCK: That is just to follow up after the sales.

MR. McRUER: No, it is more than that.

THE COMMISSIONER: No. If shippers are only acting as a blind for some Japanese exporter, then you can get behind that under this section.

MR. McRUER: And levy the dumping duty.

THE COMMISSIONER: But there does seem to be something anomalous there. By bringing the goods in one way the government deprives itself of a certain amount of duty that it would receive when it is brought in in another way. I want to be satisfied that such is the case.

MR. McRUER: It looks rather more like protection than duty.

MR. KELLOCK: It must increase tremendously the difficulty of the department in trying to supervise the subsequent sale.

BY MR. KELLOCK: Q. Now may I refer you, Mr.

"(3) If at any time it appears to the satisfaction of the Minister that the payment of the special duty by this section provided for is being evaded by the shipment of goods on consignment without sale prior to such shipment, the Minister may in any case or class of cases authorize such action as is deemed necessary to collect on such goods or any of them the same special duty as if the goods had been sold to an importer in Canada prior to their shipment to Canada."

THE CHAIRMAN: That would help to elucidate the point.

Mr. MITCHELL: That is just to follow up after

Mr. MORPHY: No, it is more than that.

THE CHAIRMAN: No. If shipments are only

[illegible]

Mr. MORPHY: And levy the dumping duty.

[illegible]

something more than zero. By bringing the goods in the way the government devises itself of a certain amount of duty that it would receive when it is brought in another way. I want to be satisfied that such is

Mr. MORPHY: It looks rather more like protection

[illegible]

the difficulty of the department in trying to supervise the shipment sale.

[illegible]

Hooper, for a moment to Exhibit 884, which shows the imports from Japan during the period of January to September, 1935 and 1936. A little below the centre of the page you will see the item, Woven Fabrics artificial silk. A. Yes.

Q. You show that from January 1 to September 30, 1935, there were some 34,472 -- what is that, yards or pounds ? A. Pounds.

Q. 34,472 pounds imported, with a value of $37,236. That is in 1935. A. Yes.

Q. Now for the same period this year, as against imports of 34,472 pounds last year, the imports this year were 250,731 pounds. So the imports are multiplied about seven times in 1936 over 1935? A. That is right.

Q. And the value in dollars is given there. Does that include mixtures? A. Yes.

Q. And rayons and cotton? A. Yes.

Q. Now I ask you to look at Exhibit 888 for a moment. This is a table you prepared, Mr. Hooper, showing deliveries of artificial silk fabrics by Canadian mills. Does this include mixtures? A. No.

Q. Pure rayon? A. All artificial silk.

Q. And there is no mistures in this at all? A. No.

Q. You show for the six months, January to June, 1935, deliveries of 15,668,572 yards. A. Yes.

Q. And for the same period in 1936 the figure is 16,065,196 yards? A. Yes.

Q. I compute that that is just approximately 2½ per cent increase in 1936 over 1935; would that be about right? A. Yes, about right.

Q. Now, I am a moment in mistake, only about the imports from Japan during the period of January to September, 1935 and 1936. A little below the centre of the page you will see the item, woven fabrics, artificial silk. A. Yes.

Q. You show that from January 1 to September 30, 1935, there were some 34,472 -- what is that, yards or pounds? A. Pounds.

Q. 34,472 pounds imported, with a value of $27,256. That is in Yen. A. Yes.

Q. Now for the same period this year, an exact import of 34,472 pounds last year, the import this year were 280,781 pounds. So the imports are multiplied about seven times in 1936 over 1935? A. That is right.

Q. And the value in dollars is given there. Does that include mixtures? A. Yes.

Q. And rayons and cotton? A. Yes.

Q. Now I ask you to look at Exhibit 888 for a moment. This is a table you prepared, Mr. Hooper, showing deliveries of artificial silk fabrics by Canadian mills. Does this include mixtures? A. No.

Q. Pure rayon? A. All artificial silk.

Q. And there is no mixtures in this at all?

A. No.

Q. You show for the six months, January to June, 1935, deliveries of 15,669,372 yards. A. Yes.

Q. And for the same period in 1936 the figure is 16,065,196 yards? A. Yes.

Q. I compute that that is just numerically 2½ per cent increase in 1936 over 1935; would that be about right? A. Yes, about right.

Q. Is it not true to say that there is more demand for fabrics generally now in 1936 than in 1935? Business is better, isn't it? A. I have heard so.

Q. And is not this the fact, Mr. Hooper, that there has been a loss in the silk goods and fine cotton goods, and cotton and rayon mixtures by reason of a switch to rayons? A. That is right.

Q. During the last year? A. I do not know when it happened.

MR. McRUER: He is putting it to you, Mr. Hooper, that it happened during the last year.

BY MR. KELLOCK: Q. I say, including last year. A. I do not know when.

Q. Has there not been a progressive switch from silk and fine cottons and mixtures? A. You can put it the other way, and say there has been a bigger demand for artificial silk fabrics.

Q. Has not that been at the expense of silk, fine cottons and mixtures? A. Yes. We may have reached the saturation point.

BY THE COMMISSIONER: Q. How long would you say that has been going on? A. 1923, 1924, 1925, whenever they started making rayon.

BY MR. KELLOCK: Q. And it has continued in more recent days, hasn't it, right down to 1936? A. The demand for rayon has increased.

Q. And is increasing against the demand for these other fabrics? A. I do not know whether it is increasing. It looks as if we had reached the saturation point in 1936.

Q. That is what I am pointing out. This

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Q. Is it fair to say that there is some interest in rayon now in the trade?

A. That is right.

Q. And is not this the fact, Mr. [illegible], that there has been a loss in the silk goods and fine cotton goods, and cotton and rayon mixtures by reason of a switch to rayon?

A. That is right.

Q. During the last year?

A. I do not know when it happened.

Q. He is putting it to you, Mr. [illegible], that it happened during the last year.

BY MR. KENLOCK: Q. I say, including last year.

A. I do not know when.

Q. Has there not been a switch from silk and mixtures?

A. You can put it the other way, and say there has been a bigger [illegible].

Q. Has not that been at the expense of silk, fine cottons and mixtures?

A. [illegible] may have reached the saturation point.

BY THE COMMISSIONER: Q. How long would you [illegible] going on?

A. [illegible]

BY MR. KENLOCK: Q. And it has continued in more recent days, hasn't it, right down to 1938?

A. The demand for rayon has increased.

Q. And is increasing against the demand for [illegible]?

A. [illegible]

[illegible]

Q. Is it fair to say that [illegible]

Exhibit shows that the Canadian mills were only able to sell 2½ per cent more in 1936 as against 1935.

A. Yes.

Q. In that period, and I am asking you if at the same time the business of the Canadian mills in silk and fine cotton goods has been going down.

A. I do not know.

Q. You do not know that. Well, all right, you cannot help me on that.

Now, Mr. Hooper, you put in Exhibit 848. That was a Departmental Letter dated April 14, 1932, providing for a basis of valuation of cotton fabrics coming in from the United States? A. Yes.

Q. And did the same situation which called forth Exhibit 827, you remember that?

THE COMMISSIONER: What is that?

MR. KELLOCK: Exhibit 827 was a Departmental letter of April 7, 1932, relating to special valuation of cotton grey goods. Exhibit 848 relates to woven cotton fabrics from dyed yarns.

THE WITNESS: Yes.

BY MR. KELLOCK: Q. Well, did the same circumstances or situation which called forth Exhibit 827 call forth Exhibit 848 ? A. Yes.

MR. McRUER: What is it you are referring to? I want to follow. You say the same situation.

MR. KELLOCK: Circumstances.

THE COMMISSIONER: What are they?

MR. KELLOCK: That the American mills at that time were selling these goods below the cost of production.

THE COMMISSIONER: That was in that first letter.

Cooper

exhibit shown that the Canadian mills were only able to sell 8% per cent more in 1950 as against 1952.

A. Yes.

Q. In that period, and I am asking you if at the same time the business of the Canadian mills in silk and fine cotton goods has been going down.

A. I do not know.

Q. You do not know that. Well, all right, you cannot help me on that.

Now, Mr. Cooper, you put in Exhibit 848. That was a Departmental letter dated April 14, 1952, proposing for a basis of valuation of cotton fabrics coming in from the United States?

A. Yes.

Q. And the same situation with regard to Exhibit 847, you remember that?

THE COMMISSIONER: What is the 8?

Exhibit 848, Departmental letter of April 7, 1952, relating to special valuation of cotton grey goods. Exhibit 846 relates to woven cotton fabrics from dyed yarns.

THE WITNESS: Yes.

BY MR. ROBLOCK: Q. Well, did the same circumstances as existed with regard to Exhibit 847 with regard to Exhibit 848?

A. Yes.

MR. [illegible]: What is it you are referring to? I want to follow. You may use some abbreviation.

MR. ROBLOCK: Circumstances.

THE COMMISSIONER: What are they?

MR. ROBLOCK: That the American mills at that time were selling there goods below the cost of production.

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BY MR. KELLOCK: Q. Your answer is, Mr. Hooper, yes, the same situation? A. Yes.

BY MR. McRUER: Q. The American mills were selling below the cost of production? A. Yes.

BY MR. KELLOCK: Q. Do you also know that while the American mills were doing that they were suffering very heavy losses? A. Yes.

Q. And then, Mr. Hooper, Exhibit 848 was cancelled in February 1934? A. Yes.

Q. Was that by reason of the fact that the Americans had brought their selling prices up? A. That is right.

Q. More to normal? A. Up to a point above the values provided for.

Q. Yes. Now in Exhibit 857 you give a comparative statement with relation to cotton hosiery yarns 20's, as between English quotations and Canadian prices, and I just want to ask you this about that situation. Is it not true that transportation charges on English goods of this type to some points in Canada, Vancouver for instance, are less than the transportation charges which the Canadian mill has to pay to the same point?

THE COMMISSIONER: Where is your starting point?

MR. KELLOCK: England.

BY MR. KELLOCK: Q. That is right, Mr. Hooper, is it? A. That is right.

THE COMMISSIONER: I am not surprised about Vancouver, but Mr. Hallam told us in Toronto and it did surprise me when he said that the transportation charges on a consignment of an equal quantity of goods from Manchester to Winnipeg were less than the

Hooper, yes, the same situation? A. Yes.

BY MR. MACKAY: Q. The American mills were selling below the cost of production? A. Yes.

BY MR. MACKAY: Q. Do you also know that while the American mills were doing that they were suffering very heavy losses? A. Yes.

Q. And then, Mr. Hooper, Exhibit 846 was compiled in February 1934? A. Yes.

Q. Was that by reason of the fact that the Americans had brought their selling prices up?

A. That is right.

Q. More to normal? A. Up to a point above the values provided for.

Q. Yes. Now in Exhibit 847 you give a comparative statement with relation to cotton hosiery yarns 10's, as between English quotations and Canadian prices, and I just want to ask you this about that situation. Is it not true that transportation charges on English goods of this type to some points in Canada, Vancouver for instance, are less than the transportation charges which the Canadian mill has to pay to the same point?

THE COMMISSIONER: Where is your starting point?

MR. MACKAY: England.

BY MR. MACKAY: Q. That is right, Mr. Hooper, is it? A. That is right.

THE COMMISSIONER: I am not surprised about

transportation charges on the same article from Toronto to Winnipeg.

MR. HALLAM: That was my information on knitted goods. Does Mr. Hooper know anything about that?

THE WITNESS: That surprised me too.

MR. McRUER: I have to find out about that. It is an important question as to the control of the market.

THE COMMISSIONER: Vancouver is all water.

MR. KELLOCK: It would be all water in the case of English shipments.

THE COMMISSIONER: You are talking of English shipments.

THE WITNESS: Shipment by rail, not shipment by boat.

MR. McRUER: Canadian shipments may go to Vancouver by water.

MR. KELLOCK: In any event Mr. Hooper says the English is less.

THE WITNESS: By rail.

THE COMMISSIONER: From where in Canada by rail?

THE WITNESS: Montreal.

BY MR. KELLOCK: Q. Are there any appreciable quantities of shipments from Montreal to Vancouver going by water? A. Yes, I think so.

Q. , Do you know how the rate compares with the rate by rail? A. Oh, it is less.

Q. Do you know how it compares with the English rate from Manchester to Vancouver? A. I believe it is less.

THE COMMISSIONER: Once you get on the water a thousand miles more or less does not make much

transportation charges on the same article from Toronto to Winnipeg.

MR. MACLEAN: That was my information on knitted goods. Does Mr. Hooper know anything about that?

THE WITNESS: That surprised me too.

MR. MONK: I have to find out about that. It is an important question as to the control of the matter.

MR. MACLEAN: It would be all water in the case of British shipments.

THE COMMISSIONER: You are talking of British shipments.

THE WITNESS: Shipment by rail, not shipment by boat.

MR. MONK: Canadian shipments may go to Vancouver by water.

MR. MACLOCK: In any event Mr. Hooper says the duties is less.

BY THE WITNESS: By rail.

THE COMMISSIONER: From where is Canada by rail?

THE WITNESS: Montreal.

BY MR. MACLOCK: Q. Are there any appreciable quantities of shipments from Montreal to Vancouver going by water? A. Yes, I think so.

Q. Do you know how the rate compares with the rate by rail? A. Oh, it is less.

Q. Do you know it compares with the English rate from Manchester to Vancouver? A. I believe it is less.

difference. That is a fact.

THE WITNESS: Is there any hosiery yarn going to Vancouver?

MR. KELLOCK: I cannot tell you, Mr. Hooper, offhand.

MR. HALLAM: I do not know.

BY MR. KELLOCK: Q. You are not limiting your answer to hosiery yarns, Mr. Hooper. A. I did not know you brought this Exhibit out. I thought maybe you were --

BY MR. KELLOCK: Q. If there is any misunderstanding I will ask you the same question with regard to any fabric. A. Yes, that would be the case.

Q. With reference to Exhibit 858, which is a statement with regard to cotton warp yarn, 2/24's, the rate which prevailed prior to September 17, 1930, was apperently 15 per cent ad valorem. Is that right? A. Yes.

Q. My friend compared that with the rate which prevails today as from May 2, 1936. Is that right? A. Yes.

Q. Now take June 3, 1930, which is the first item on the Exhibit. The British preferential tariff in dollars was $4.56 per hundred pounds. That is right? A. Yes.

Q. That is at 15 per cent. Now on May 5, 1936, the duty was $3.61 per hundred pounds. Is that right? A. Yes.

Q. The rate was still 15 per cent, but the duty in cents per pound was more in June 1930 than it was in May 1936, notwithstanding that the rate of duty was the same. A. That is right.

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That is a fact.

THE WITNESS: Is there any hosiery yarn going to Venezuela?

[illegible] offhand.

MR. PELLEGR: I do not know.

BY MR. ADELSON: Q. You are not limiting your answer to hosiery yarns, Mr. Hooper. A. I did not know you brought this Exhibit out. I thought

BY MR. ADELSON: Q. If there is any misunderstanding I will ask you the same question with regard to any fabric. A. Yes, that would be the case.

Q. With reference to Exhibit 838, which is a statement with regard to cotton warp yarn, 2/84's, the rate which prevailed prior to September 17, 1930, was apparently 15 per cent ad valorem. Is that right? A. Yes.

Q. My friend compared that with the rate which prevails today as from May 3, 1936. Is that right? A. Yes.

Q. Now take June 3, 1930, which is the first item on the Exhibit. The British preferential tariff in dollars was $4.36 per hundred pounds. That is right? A. Yes.

Q. That is at 15 per cent. Now on May 3, 1936, the duty was $3.81 per hundred pounds. Is that right? A. Yes.

Q. The rate was still 15 per cent, but the

Q. All right. Now would you look at Exhibit 860, which relates to grey goods as described there, and just tell His Lordship whether or not the situation was not just exactly the same. Let me see, it will not be the same because the rates are different, 12½ and 17½ per cent -- A. 15 per cent now.

Q. Oh yes. The rate which prevailed on June 3, 1930, was 12½ per cent ad valorem, British preference A. Yes.

Q. And that gave a protection in cents per pound of $1.95. Is that right? A. Right.

Q. On May 5, 1936, although the rate went up to 15 per cent, the protection in cents per pound was $1.90, or less than in 1930, June 3.

A. 5 cents less.

Q. Exhibit 861 seems to show a similar situation.

BY THE COMMISSIONER: Q. Was it because of the decline in the dollar? A. No, because of the lower price of grey goods, my lord. On June 3, 1930, the price was 3 pounds, 4 shillings.

Q. And the duty was 12½ per cent in 1930? A. On 3 pounds 4 shillings. The price on May 5, 1936, was 2 pounds 12 shillings, with a duty of 15 per cent, and the British preferential duty amounted to $1.90 in dollars and cents.

BY MR. KELLOCK: Q. And the price of raw cotton had gone down to 6.43 per pound. A. That is right.

Q. Now will you look at Exhibit 861, which relates to grey goods as described there? The

Q. All right. Now would you look at Exhibit 860, which relates to grey goods as described there, and just tell His Lordship whether or not the alterations are not [illegible] Yes or no.

[illegible] the same thereto the rates are different, 18½ and 17½ per cent -- A. 15 per cent now.

Q. Oh yes. The rate which prevailed on June 3, 1930, was 18½ per cent ad valorem, British preference.

A. Yes.

Q. And that gave a protection in cents per pound of $1.35. Is that right? A. Right.

Q. On May 5, 1936, although the rate went up to 15 per cent, the protection in cents per pound was $1.30, or less than in 1930, June 3.

A. 5 cents less.

Q. Exhibit 861 seems to show a similar alteration.

BY THE [illegible]: Q. Was it because of the decline in the dollar? A. No, because of the lower price of grey goods, My Lord. On June 3, 1930, the price was 2 pounds, 4 shillings.

Q. And the duty was 18½ per cent in 1930?

A. On 2 pounds 4 shillings. The price on May 5, 1936, was 2 pounds 1½ shillings, [illegible] at 15 per cent, and the British preferential duty amounted to $1.30 in dollars and cents.

BY MR. MACLOCK: Q. And the price of raw [illegible] is right.

Q. The [illegible] per pound, which relates to grey goods as described there,

rate on June 3, 1930, was 12½ per cent ad valorem British preference, and the duty in cents per pound was $2.01 per hundred. On May 5, 1936, the rate was higher, but the duty in cents per pound was only $1.59 per hundred. A. $1.59.

Q. Or 1.59 cents to the pound? A. To the yard.

MR. KELLOCK: It is yards in that case?

A. Yes.

Q. Will you look at Exhibit 873, Mr. Hooper? You show there, in the second line from the top of the page, January 15, 1931, and just before that there was a tariff change on September 17, 1930, when the rates were increased from 27½ per cent to 35 per cent ad valorem, and 30 cents a pound specific. Now you show an increase of 310 per cent. How do you figure that 310 per cent? Perhaps your note explains that. You say "increase of 310 per cent on $110". A. The duty prior to September 17, 1930, amounted to $29.49. After September 17, 1930, the duty would be 27½ per cent on $110.

Q. After the 17th of September? A. 35 per cent after September 17, 1930, which would be $38.50, plus 82.50. Then you subtract 29.49 from that, and divide the resulting figure by 29.49.

Q. When you say an increase of 310 per cent that is on a basis of a price of $310? A. Yes. If you took it on a lower price it would be still higher, would it not?

THE COMMISSIONER: On my Exhibit it says "310 per cent on $110."

rate on June 1, 1880, was 18¢ per cent ad valorem
British preference, and the duty in cents per pound
was $2.01 per hundred. On May 5, 1886, the rate was
higher, but the duty in cents per pound was only
$1.59 per hundred. A. $1.80.

Q. Or 1.59 cents to the pound? A. To
the yard.

CH. KNITTOUR: If is yards in what ones?

A. Yes.

Q. Will you look at Exhibit 573, Mr. Hooper?
You show there, in the second line from the top of
the page, January 15, 1881, and just before that
there was a tariff change on September 17, 1880,
when the rates were increased from 27½ per cents to
55 per cent ad valorem, and 30 cents a pound specific.
Now you show an increase of 310 per cent. How do
you figure that 310 per cent? Perhaps your note
explains that. You say "Increase of 310 per cent
on $110". A. The duty prior to September 17,
1880, amounted to $29.49. After September 17, 1880,
the duty would be 27½ per cent on $110.

Q. After the 17th of November? A. 55 per
cent after September 17, 1880, while it would be $26.30,
plus $2.40. [illegible] and
divide the resulting figure by 29.49.

Q. When you say an increase of 310 per cent
[illegible]
If you took it on a lower price it would be still
higher, would it not?

THE CHAIRMAN: Or my result is says "310
per cent on $110."

Yes,

BY MR. KELLOCK: Q. And the point I wanted to come to, Mr. Hooper, is this. The price as a matter of fact on January 15, 1931, which is the first date you show after September 17, 1930, was $110. But it dropped to $85. A. Yes, but you would not want me to use $85 as the basis.

Q. Yes, I think you should. A. All right we shall do that.

Q. If you take $110 you are taking a hypothetical case, aren't you?

THE COMMISSIONER: See the confusion that would result if you take the actual price. You would then have to take the selling price of $70 for February 17, 1932, and $120 for February 1, 1934, and so on.

MR. KELLOCK: My point is simply this. If you take a hypothetical selling price of $110 you are not dealing with the actual situation at all.

THE COMMISSIONER: Then you might say that you must not take $85 any more than $110, and that later on you must take $121.

MR. KELLOCK: My submission is that you must take the actual selling price every time if you are trying to find out what the actual protection is.

THE COMMISSIONER: On $110 the increase is 310 per cent according to this Exhibit. On $85 it would be so much more, and on $120 it would be so much less. What is the use of it all?

MR. KELLOCK: My only point is this. If he had put the absolute increase as 310 per cent, that would be wrong. It is 310 per cent on $110. If it is $85 the percentage is more.

Q. Yes, I think you should. A. All right I shall do that.

Q. If you take $110 you are taking a hypothetical case, aren't you?

THE COMMISSION H: Use the conclusion that would result if you take the actual price. You would then have to take the selling price of $70 for February 17, 1932, and $150 for to March 1, 1934, and so on.

MR. KINCOCK: My point is simply this. If you are a hypothetical selling price of $110 you are not dealing with the actual situation at all.

THE COMMISSION H: Then you might say that you must not take $65 any more than $110, and the item

the actual selling price every time if you are buying

Yes.

BY MR. KINCOCK: Q. And the point I wanted to come to, Mr. Hooper, is this. The price as a matter of fact on January 15, 1917, which is the first date you show after September 17, 1920, was $110. But it dropped to $65. A. Yes, but you would not want me to use $65 as the basis.

Q. Yes, I think you should. A. All right I shall do that.

Q. If you take $110 you are taking a hypothetical case, aren't you?

THE COMMISSION H: Use the conclusion that would result if you take the actual price. You would then have to take the selling price of $70 for February 17, 1932, and $150 for to March 1, 1934, and so on.

MR. KINCOCK: My point is simply this. If you are a hypothetical selling price of $110 you are not dealing with the actual situation at all.

THE COMMISSION H: Then you might say that you must not take $65 any more than $110, and the item

the actual selling price every time if you are buying

BY MR. KINCOCK: My only point is this. If be that is the use of it why

Q. Yes, I think you should. A. All right I shall do that.

Q. If you take $110 you are taking a hypothetical case, aren't you?

THE COMMISSION H: Use the conclusion that would result if you take the actual price. You would then have to take the selling price of $70 for February 17, 1932, and $150 for to March 1, 1934, and so on.

MR. KINCOCK: My point is simply this. If you are a hypothetical selling price of $110 you are not dealing with the actual situation at all.

THE COMMISSION H: Then you might say that you must not take $65 any more than $110, and the item

the actual selling price every time if you are buying

BY MR. KINCOCK: My only point is this. If be that is the use of it why

THE WITNESS: It is over 370 per cent.

MR. KELLOCK: In other words, my lord, my point is simply this, and we will come to it in argument, that percentage is only something in the air.

THE COMMISSIONER: Hold on now. You can argue anything you like when the time comes, but to say that percentage is only something in the air , then our customs tariff must be something in the air because it is all done by percentages. I cannot conceive of a tariff which will say that the higher the price the less the rate of duty is going to be.

MR. KELLOCK: I am not arguing for that at all.

THE COMMISSIONER: No, but you say it is all in the air.

MR. KELLOCK: I am only saying that if you want to find out what the protection is on any specific date you can only findout by taking the facts as they exist on that date. That is argument and we will come to it.

BY MR. KELLOCK: Q. Now I come to Exhibit 878, which was Departmental Bulletin dated June 7, 1932, and which referred to wool jersey cloth and cotton stockinette.Do you recall that? A. Yes.

Q. I suppose that the same situation that called forth that was the same situation that you have just described in connection with Exhibit 827 and other Exhibits, that American mills were selling at that time below the cost of production? A. No.

Q. Well, what was it? A. The price at which the goods were coming in was injuriously affecting Canadian interests. That would be the only basis on which valuations under Section 43 could be made.

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THE WITNESS: It is over 270 per cent.

MR. KELLOCK: In other words, my Lord, my point is simply this, and we will come to it in argument, that percentage is only something in the air.

THE COMMISSIONER: Hold on now. You can argue anything you like when the time comes, but to say that percentage is only something in the air, then our customs tariff must be something in the air because it is all done by percentages. I cannot conceive of a tariff which will say that the higher the price the less the rate of duty is going to be.

MR. KELLOCK: I am not arguing for that at all.

THE COMMISSIONER: No, but you say it is all in the air.

MR. KELLOCK: I am only saying that if you want to find out what the protection is on any specific date you can only find out by taking the facts as they exist on that date. That is argument and we will come to it.

BY MR. KELLOCK: Q. Now I come to Exhibit [illegible], which was [illegible] dated June 7, 1932, and which referred to wool jersey cloth and cotton stockinette. Do you recall that? A. Yes.

Q. I suppose that the same situation that called forth that was the same situation that you have just described in connection with Exhibit 827 and other Exhibits, that American mills were selling at that time below the cost of production? A. No.

Q. Well, what was it? A. The price at which the goods were coming in was injuriously affecting Canadian interests. That would be the only basis on which reductions under [illegible] of

Q. What was the section that 827 operated under? A. Section 36 subsection 2.

Q. So that particular Exhibit had nothing to do with the foreign selling cost? A. No, just the cost of production in Canada.

Q. Are cotton crepes made in Canada?

A. The department has ruled that cotton crepes are not of a class or kind made in Canada.

Q. You put in Exhibit 885 showing importations from Japan in 1936? A. Yes.

Q. For September, and I see you include there some cotton crepes. The department having ruled that cotton crepes are not of a class or kind made in Canada, where do we get cotton crepes from besides Japan and Great Britain? A. I have never seen a cotton crepe imported from anywhere but from Japan.

Q. I see, all right. Now yesterday, Mr. Hooper, in connection with Exhibit 804 and the question as to whether or not cotton yarns 40's and finer were all dutiable, or whether there was quite a bit which came in under the duty free items, you recall that a statement was put in which showed the duty free items? A. Yes.

Q. And then there was some question raised as to whether or not yarns 40's and finer -- my friend raised the question -- were made in Canada and to what extent? A. Yes.

Q. I have had prepared, my lord, a statement which shows that situation in 1935, dealing with one company only, Montreal Cottons Limited.

MR. McRUER: Is there anyone who could inform us about this? You are putting in statements through

Q. What was the section that GRT operated under? A. Section 16 subsection 2.

Q. So that particular Exhibit had nothing to do with the foreign selling cost? A. No, just the cost of production in Canada.

Q. Are cotton crepes made in Canada?

A. The department has ruled that cotton crepes are not of a class or kind made in Canada.

Q. You put in Exhibit 865 showing importations from Japan in 1936? A. Yes.

Q. For December, and I see you include there that cotton crepes are not of a class or kind made in Canada, where do we get cotton crepes from besides Japan and Great Britain? A. I have never seen cotton crepe imported from anywhere but from Japan.

Q. I see, all right. Now yesterday, Mr. Hooper, in connection with Exhibit 864 and the question as to whether or not young 40's and finer were available, or whether there was quite a bit which [illegible] statement was put in which showed the duty free

Q. And then there was some question raised as to whether or not young 40's and finer -- my friend raised the question -- were made in Canada and to [illegible] A. Yes.

I have had prepared, my Lord, a statement which shows that situation in 1935, dealing with one company only, Montreal Cottons Limited.

MR. MONTAGUE: Is there anyone who would inform me exactly what? You are putting in statements through

Mr. Hooper, and I cannot crossexamine Mr. Hooper because he does not know anything about it.

MR. KELLOCK: That is quite so. Do you object?

MR. McRUER: I do not object to your bringing statements forward.

THE COMMISSIONER: The question is whether this is the best time and the proper place to put them in.

MR. KELLOCK: Exhibit 804, my lord, is the history --

THE COMMISSIONER: What are you referring to?

MR. KELLOCK: Yarns 40's and finer. An Exhibit put in yesterday showed imports of about three million pounds.

THE COMMISSIONER: What exhibit was that, do you remember?

MR. KELLOCK: Part of Exhibit 804, and I should like this to be added to Exhibit 804. It shows the domestic production of one company, Montreal Cottons Limited, of yarns 40's and finer in 1935, and for ten months of 1936.

THE COMMISSIONER: A total production of 940,000 pounds in 1935 and 328,000 pounds for ten months in 1936, as against what?

MR. KELLOCK: This is only to show, my lord, that these yarns, 40's and finer, are made in Canada and were made in Canada to a considerable extent. These are only figures of one company that I have been able to get.

THE COMMISSIONER: We will put this in as your Exhibit, with a reference to Exhibit 804. It will be Exhibit 899.

Mr. Hooper, and I cannot cross-examine Mr. Hooper because he does not know anything about it.

MR. COMMODORE: That is quite so. Do you object?

MR. MAHLER: I do not object to your bringing statements forward.

THE COMMISSIONER: The question is whether this is the best time and the proper place to put them in.

MR. COMMODORE: Exhibit 804, my lord, is the history --

THE COMMISSIONER: What are you referring to?

MR. COMMODORE: Years 40's and Timer. An Exhibit put in yesterday showed imports of about three million pounds.

THE COMMISSIONER: What Exhibit was that, do you remember?

MR. COMMODORE: Exhibit 804. It shows the domestic production of one company, Montreal Cottons Limited, of yarns 40's and Timer in 1955, and for ten months of 1956.

THE COMMISSIONER: A total production of 940,000 pounds in 1955 and 814,000 pounds for the months in 1956, as against what?

MR. COMMODORE: This is only to show, my lord, that these yarns, 40's and Timer, are made in Canada and were made in Canada to a considerable extent. Those are only figures of one company that I have been able to get.

THE COMMISSIONER: We will put this in as Your Exhibit, with a reference to Exhibit 804. It will be Exhibit 819.

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EXHIBIT 899: Montreal Cottons Limited, production of cotton yarn 40's and finer.

MR. McRUER: I do not know what the value of Exhibit 899 is in the way it is put in by my friend. I was just speaking to counsel for Montreal Cottons, and he does not seem to know much about it yet.

THE COMMISSIONER: I suppose somebody is going to come and vouch for it. You see, Mr. Kellock, you put into Mr. Hooper's hands something that he cannot know anything about, a statement of the total production of Montreal Cottons. Who is going to be able to say that this is a proper statement?

MR. McRUER: But the point I make is this: Montreal Cottons make these yarns for themselves. To what extent they sell them I do not know. The reason I am particular about it is that because application was made to the Tariff Board in 1927 to have yarns 40's and finer made dutiable. That was all threshed out and I have read the record. I think Mr. Nash can vouch for this for he gave evidence on behalf of the companies at that time. The application was disallowed by the Tariff Board and then Mr. Whitehead said, "After we did not get the duty on these yarns, we stopped making them." That is the reason I am a little particular about the statement being put forward in this way.

THE COMMISSIONER: When was that application?

MR. McRUER: In 1927, and the application was

MR. MCGUIRE: I do not know what the value of Exhibit 899 is in the way it is put in by my friend. I was just speaking to counsel for Montreal Cottons, and he does not seem to know much about it yet.

THE COMMISSION: I suppose somebody is going to come and vouch for it. You see, Mr. Kellock, you put into Mr. Cooper's hands something that he cannot know anything about, a statement of the total production of Montreal Cottons. Who is going to be able to say that this is a proper statement?

MR. MCGUIRE: But the point I make is this: Montreal Cottons make these returns for themselves. To what extent they sell them I do not know. The reason I am particular about it is that because application was made to the Tariff Board in 1927 all threshed out and I have read the record. I think Mr. Mann can vouch for this for he gave evidence on behalf of the companies at that time. The application was disallowed by the Tariff Board and then Mr. Whitehead said, "After we did not get the duty on that yarn, we stopped making ..." This is the reason I am a little particular about the statement being put forward in this way.

made by Wabasso Cotton Company for a duty on yarns 40's or finer. That application was refused with the exception that 40's were made dutiable, but yarns finer than 40's were not made dutiable, and Mr. Whitehead said, "We stopped making them after that."

MR. KELLOCK: Are you sure of that?

MR. McRUER: Yes. I am very sure it is my recollection of it.

MR. KELLOCK: I do not doubt that.

MR. McRUER: And he left the impression that it was because he did not get the duty that they stopped making them for sale. I think they make some for themselves.

THE COMMISSIONER: Can you tell me what reasons were given for not granting the duty?

MR. McRUER: I do not think the board gave any reasons for their judgment. They just heard all the representations that were made, and the amount that was invested in the making and spinning of these yarns, and so on. I think the reason is because it is raw material, and that there was not enough of that cloth made in Canada that would justify the duty.

THE COMMISSIONER: Is the position today that Montreal Cottons Company want a duty now on these yarns, want the question reopened?

MR. KELLOCK: I do not think anyone is raising that.

THE COMMISSIONER: You are raising it, or why do you put this in.

MR. KELLOCK: Because yesterday when dealing with Exhibit 804 my friend suggested that yarns 40's and finer were not made in Canada, and I am putting

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that cloth made in Canada that would justify the duty.

THE COMMISSIONER: Is the position to-day that
Montreal Cottons Company want a duty now on these
yarns, went the question reopened?

MR. KELLOCK: I do not think anyone is raising
that.

THE COMMISSIONER: You are raising it, or why
do you put this in.

MR. KELLOCK: Because yesterday when dealing
with Exhibit 804 my friend suggested that yarns 40's
and finer were not made in Canada, and I am putting

this in to show that there is one company that is making them in Canada today.

THE COMMISSIONER: Then you had better get someone to come along on behalf of the company and be examined on it.

MR. KELLOCK: Very well.

THE COMMISSIONER: Will you do that?

MR. KELLOCK: Yes, my lord.

THE COMMISSIONER: Then I will put it in in the meantime.

MR. McRUER: I think my statement was more in the nature of a question than a statement.

MR. KELLOCK: I accept that.

MR. McRUER: I think I said, they are not made in Canada, are they? I do recollect Mr. Whitehead leaving the impression on us that they had given up making these because they had not got the duty. I may have taken him up wrong.

MR. KELLOCK: I only want to say that once or twice when I was addressing a question to Mr. Hooper Your Lordship seemed to think that I had tried to cast reflections on Mr. Hooper. That was furthest from my thought. I just wanted to get all the facts before Your Lordship. That is all, thank you.

BY MR. McRUER: Q. Mr. Hooper has prepared a rather comprehensive statement of the sections of the Customs Act applicable to valuations for duty and of the Customs Tariff Act, and set them out in a form here which I think would be very useful, my lord, if we may file this as an Exhibit. I do not think we need to examine Mr. Hooper on it.

THE COMMISSIONER: What is it?

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making them in Canada today.

THE COMMISSIONER: Then you had better get someone to come along on behalf of the company and be examined on it.

MR. KNILLOCK: Very well.

THE COMMISSIONER: Then I will put it in in the meantime.

MR. MOSHER: I think my statement was more in the nature of a question than a statement.

MR. KNILLOCK: I accept that.

MR. McHUGH: I think I said, they are not made in Canada, are they? I do recollect Mr. Whitehead leaving the impression on me that they had given up making them and not got the duty. I may have taken him up wrong.

MR. KNILLOCK: I only went to say that once or twice was I (the Chairman) question Mr. Mosher. Your Lordship seemed to think that I had tried to cast reflections on Mr. Hooper. That was furthest from my thought. I just wanted to get all the facts before Your Lordship. That is all, thank you.

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MR. McRUER: It is a synopsis of the Customs Act and the Customs Tariff Act in respect to valuation for duty.

THE COMMISSIONER: It will be Exhibit 900.

EXHIBIT 900: Synopsis of Canadian Customs Act (respecting value for duty) and section 6 of the Customs Tariff Act (dumping duty).

BY MR. McRUER: Q. There is just one question, Mr. Hooper, in regard to these fabrics that were put foward by the companies as the fabrics that competed with Japanese 27" taffeta that has been imported. You said you had made an examination of their cost sheets and you determined that on these fabrics the companies do not charge a higher spread for manufacturing cost and profit than they normally charge on other fabrics. That is correct? A. The cost sheet did not show that, but they were selling above their estimated selling price.

Q. They had a cost sheet that showed their cost of manufacture and their normal expectancy of profit? A. Yes.

Q. And their prices that they were charging on these fabrics were higher than that price arrived at on the cost sheet? A. That is correct. At the present time it is not true in all cases, but in some cases on some particular fabrics such as the white's and pastel shades the estimated selling cost is less than the selling price 17 cents a yard.

Q. On some it is less by 17 cents a year; but on others? A. It is just under 17 cents.

Q. As I understood it we had evidence from the buyers, from the department stores, with respect

MR. MONDER: It is a synopsis of the Customs Act and the Customs Tariff Act in respect to valuation for duty.

THE COMMISSIONER: It will be Exhibit 900.

EXHIBIT NO. 900: Synopsis of Canadian Customs Valuation for duty and (Temporary value for duty) and section 6 of the Customs Tariff Act (Surplus duty).

MR. MONDER: Q. There is just one question, Mr. Hooper, in regard to these Tariffs that were put forward by the companies as the Tariffs that competed with Japanese BV" tariffs that has been imported. You said you had made an examination of their cost sheets and you determined that on these fabrics the companies do not charge a higher spread for manufacturing cost and profit than they normally charge on other fabrics. That is correct? A. The cost sheet did not show that, but they were selling above their selling price.

Q. They had a cost sheet that showed their cost of manufacture and their normal expectancy of profit?

A. Yes.

Q. And their prices that they were charging on those fabrics were higher than that price arrived at on the cost sheet? A. That is correct.

At the present time it is not true in all cases, but in some cases on some particular fabrics such as the [illegible] the estimated selling [illegible] the selling price it costs a yard; [illegible] A. It is just under it costs.

to the quality of Canadian goods and the quality of the Japanese goods, and your suggestion was that while a buyer might be willing to pay 2 cents more for the better fabric he might buy the cheaper fabric if he had to pay 4 cents more for the better fabric.

A. Yes.

Q. Then you also suggested that these Japanese fabrics were not used in the United States for coffin linings. Are the fabrics now imported from Japan being used? A. That is my understanding, that some fabrics being imported are being used for coffin linings.

Q. Now in regard to the valuation for duty or the collection of duties on goods shipped in on consignment, if the importer from a foreign country imports goods on consignment, and sells to a buyer in Canada at less than the price would be had the buyer imported directly from the foreign country and paid the duties, you may then assess the goods for dumping duty? A. After obtaining an order from the Minister.

Q. After obtaining an order from the Minister? A. Yes.

Q. Now has it not been your experience that the Canadian manufacturers watch very closely through the organizations that they have the importation of goods and the price that they are selling at? A. Yes.

Q. And is it not a fact, Mr. Hooper, that from time to time they take up with the Department such questions as the prices that imported goods are selling at and where they are coming from, and whether they

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the Japanese goods. Your witness was that with
a buyer might be willing to pay 2 cents more for the
better fabric he might buy the cheaper fabric if he
had to pay 4 cents more for the better fabric.

A. Yes.

Q. Then you also suggested that these Japanese
fabrics were not used in the United States for
cotton linings. Are the fabrics now imported from
Japan being used? A. That is my understanding.
that some fabrics being imported are being used for
cotton linings.

Q. Now in regard to the valuation for duty
or the collection of duties on goods shipped in on
consignment, if the importer from a foreign country
imports goods on consignment, and sells to a buyer
in Canada at less than the price would be had the
buyer imported directly from the foreign country and
paid the duties, you may then possess the goods for
clearing duty? A. After obtaining an order from
the Minister.

Q. After obtaining an order from the Minister?

A. Yes.

Q. Now has it not been your experience that
the organizations that they have the importation of
goods and the price that they are selling at?

A. Yes.

Q. And is it not a fact, Mr. Cooper, that from

are being sold on consignment? A. Yes, sir.

THE COMMISSIONER: The fact remains that I still want to know more about that.

MR. McRUER: Oh yes, my lord.

BY MR. BALLANTYNE: Q. In answer to Mr. McRuer, Mr. Hooper, you said that there were some Canadian rayon fabrics which had been selling at a price greater than their estimated cost including profit, and that these were the fabrics which were getting Japanese competition? A. That is one of the fabrics.

Q. That is one of the fabrics? A. I went further than that in my statement. Mr. Kellock wanted to know why, if the selling price of fabrics was lower in Canada than in the United States, and the duties higher in Canada than in the United States, why importations were coming in from Japan into Canada, and the question you ask was one example I gave. The other was that if similar fabrics coming in from Japan were selling in Canada on the same basis as these fabrics were selling at lower prices than those obtaining in the United States, there may not be many importations.

Q. Are these Canadian fabrics which are selling at lower prices than in the United States, are they selling at a price which shows a profit or are they selling at less than their estimated selling price? A. They are selling at less than their estimated selling price.

Q. And therefore if on these lines which are meeting Japanese competition, if they reduced their present selling price, which you say is high now -- A. Yes.

THE CHAIRMAN: The fact remains that I still want to know more about that.

Mr. Mosher: Oh yes, my lord.

BY MR. BALLANTYNE: Q. In answer to Mr. Mosher, Mr. Moodie, you said that certain rayon fabrics which had been selling at a price [illegible] and that these were the fabrics which were getting Japanese competition? A. That is one of the fabrics.

Q. That is one of the fabrics? A. I went further than that in my statement. Mr. Mosher wanted to know why, if the selling price of fabrics was lower in Canada than in the United States, and the duties higher in Canada than in the United States, why importations were coming in from Japan into Canada, and the question you ask was one example I gave. The other was that if similar fabrics coming in from Japan were selling in Canada on the same basis as these fabrics were selling at lower prices than those obtaining in the United States, there may not be many importations.

Q. Are these Canadian fabrics which are selling [illegible] selling at a price which shows a profit or are they selling at less than their estimated selling price? A. They are selling at less than their estimated selling price.

Q. -- to a point where they would sell at the same price as the Japanese goods coming in, how would the Canadian manufacturer make out on his estimated cost? A. About the same way as on the other fabrics, I suppose.

Q. At a loss? A. What appears to be a loss from their estimated cost sheet.

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-- The Commission adjourned at 5 p.m. to resume at 10.30 a.m. Thursday, November 12, 1936.

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-- The Commission adjourned at 5 p.m. to resume at 10.30 a.m. Thursday, November 18, 1926.

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ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
TORONTO - CANADA

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner.

A.S. Whiteley, Secretary,

E I G H T Y - N I N T H D A Y

(November 12, 1936)

Robert Brydie,
Official Reporter.

ROBT. SUTTON
CHATTERED STENOGRAPHIC
SERVICES
TORONTO - CANADA

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

Appearances:

J. C. McRuer, K.C.) and E. Beauregard, K.C.)	Commission Counsel
J.P. Lanctot, K.C.) and R.L. Kellock, K.C.)	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C.) Aime Geoffrion, K.C.) and C.T. Ballantyne,)	For Dominion Textile Company.
S.G. Dixon, K.C.)	For Courtaulds, Limited.
L.A. Forsyth, K.C.)	For Canadian Celanese Limited, and Canadian Silk Products Limited.

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J. C. Molson, K.C.) and	Commission Counsel
J.P. Lamont, K.C.) and R.L. Kellock, K.C.)	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C.) Aime Geoffrion, K.C.) and C.T. Bellantyne,)	For Dominion Textile Company.
S.G. Dixon, K.C.)	For Courtaulds, Limited.
L.A. Forsyth, K.C.)	For Canadian Celanese Limited, and Canadian Silk Products Limited.

Ottawa, Ontario,
Thursday, November 12,1936.

-- The Commission resumed at 10:30 A.M.

ERNEST J. HOWSON, sworn.

EXAMINED BY MR. McRUER,

Q. Mr. Howson, you are a chartered accountant? A. Yes, sir.

Q. A member of the firm of Thorne,Mulholland, Howson and MacPherson, chartered accountants of Toronto ? A. Yes, sir.

Q. And you have been employed by the Commission to make certain investigations in a professional capacity in regard to the textile industry ? A. I have, yes sir.

Q. And you caused a questionnaire to be sent out to the different companies that were engaged in the textile industry in the Dominion of Canada ? A. I did, yes.

Q. And the companies made up their answers to the questionnaire themselves, did they not ? A. Yes, and sent them in to me.

Q. Sent them in to you , yes, and your evidence will be based, I take it, largely on the answers to the questionnaires that were made by the companies themselves ? A. That is correct.

Q. In certain instances you have had to make some further investigation, further inquiries, but your information all comes directly from the companies ? A. Yes, we have to get further information, further

-- The Commission resumed at 10:30 A.M.

Q. Mr. Howson, you are a chartered accountant?

A. Yes, sir.

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Q. And the companies made up their answers to the questionnaire themselves, did they not ? A. Yes, and sent them in to me.

Q. Sent them in to you , yes, and your evidence will be based, I take it, largely on the answers to the questionnaires that were made by the companies themselves ? A. That is correct.

Q. In certain instances you have had to make some further investigations, further inquiries, but generally all comes directly from the companies ?

detailed information which we got from the companies in the same way as we got the original information in the questionnaire.

Q. Now, I do not want it this morning, but before we are through I would like a list of the companies to whom you sent the questionnaire and also a list of the companies that replied with any information that we have in respect to companies that did not reply to the questionnaire ? A. I have such a list ready.

Q. Well, we will have that put in later. The first company I propose to deal with is Courtaulds Canada,Limited. I show you a file, Mr. Howson. Is this the file that constituted th e reply to the questionnaire that was sent to Courtaulds ? A. Yes, sir.

Q. I will have this marked as an exhibit.

BY THE COMMISSIONER: Q. Courtaulds questionnaire, is that right ? A. And supporting statements.

MR. McRUER: It is the answers to the questionnaire, really.

THE COMMISSIONER: Just a minute, this is Exhibit 901.

EXHIBIT No. 901: Questionnaire referring to Courtaulds Canada, Limited.

BY MR. McRUER: Q. Now, the Courtauld Company was incorporated at what date, Mr. Howson ? A. August 22, 1928. That was subsequent to the operation of a branch of Courtaulds, London,England, which had been operating from May,1924, and the questionnaire covers the operations of the two businesses.

Q. Now, I do not want it this morning, but before we are through I would like a list of the companies to whom you sent the questionnaire and also a list of the companies that replied with any information that we have in respect to companies that did not reply to the questionnaire ? A. I have such a list ready.

Q. Well, we will have that put in later. The first company I propose to deal with is Courtaulds Canada Limited. I show you a file, Mr. Howson. Is that the file that contains (?) reply to the questionnaire that was sent to Courtaulds ? A. Yes, sir.

Q. I will have this marked as an exhibit.

MR. McHUGH: Q. Courtaulds Canada, is that right, A. and supporting statements.

MR. McHUGH: It is the answers to the questionnaire, really.

THE COMMISSIONER: Just a minute, this is Exhibit 901.

BY MR. McHUGH: Q. Now, the Courtaulds Canada

Q. Yes; what was the capital structure of the company as originally incorporated ? A. That is the incorporated company ?

Q. Yes ? A. 25,000 - 6 per cent non-cumulative preferred shares, $100. each, and 35,000 Common shares of $100. each making a total of $6,000,000 par value.

Q. Now, of that how much was issued for goodwill ? A. $2,448,915.50.

Q Then, there was a recasting of the capital structure later on ? A. There was a further issue of preferred shares in May, 1931, 7,500 at par, and another $750,000.

Q. Yes ? A. Then, on December 2, 1933, the company took out supplementary letters patent and changed the capital structure from preferred and common par shares to Class A and Class B shares with $100. par for each share.

Q. Was any new capital introduced at that time ? A. No.

Q. So that -- A. No, not at that time.

Q. Was there later any new capital introduced ? A. Yes, in 1934, in July there were 7,500 Class A shares sold for $750,000. and 5,000 Class B shares sold for $500,000. issued at par.

Q. So that the total capital outstanding at the present time is shown to be how much ?
A. $8,000,000.

Q. $8,000,000.; does that include the $2,448,915.50 that was issued for goodwill ? A. Yes.

Q. Yes; what was the capital structure of the company as originally incorporated ? A. That is the incorporated company ?

Q. Yes ? A. $5,000 - 6 per cent non-cumulative preferred shares, $100. each, and 5,000 common shares of $100. each making a total of $1,000,000 par value.

Q. Now, of that how much was issued for goodwill ?

A. $1,000,000.

Q. Then, there was a recasting of the capital structure later on ? A. There was a further issue of preferred shares in May, 1953. 7,500 at par, and another $750,000.

Q. Yes ? A. Then, on December 8, 1953, the company took out supplementary letters patent and changed the capital structure from preferred and common par shares to Shares A and Class B shares with $100. par for each share.

Q. Was any new capital introduced at that time ?

A. No.

Q. So that -- A. No, not at that time.

Q. Was there later any new capital introduced ?

A. Yes, in 1954, in July there were 7,500 Class A shares sold for $750,000. and 5,000 Class B shares sold for

THE COMMISSIONER: How much for goodwill ?

MR. McRUER: $2,448,915.50. Now, can you give me the profits made by the company prior to the incorporation -- by the branch prior to the incorporation -- oh, by the way, before I take that, Mr. Howson; all of the shares are owned by the parent company, Courtaulds of England ? A. With the exception of the qualifying shares.

Q. With the exception of the qualifying shares; I just want to get the record complete .

BY THE COMMISSIONER: Q. That is the directors' qualifying shares ? A. Yes, sir. The profits for the branch in 1926 were $443,095.06 and in 1927, $939,989.40 out of which was paid Income Tax of $137,344.85 leaving a figure of $802,644.55 for that year.

BY MR. McRUER:

Q. For that year or for the two years ? A. For that year.

Q. Is that 1926 ? A. 1927; it is $443,095. for 1926.

Q. Four hundred and how much ? A. $443,095.06, and $802,644.55 for 1927 after Income Tax.

Q. Then, I just want to get the total of that.

MR. DIXON: Then, there is another eight months.

BY MR. McRUER: Q. Then, there is another eight months, that is quite right, before the incorporated company started to operate ? A. Net profit on sales, $595,349.14 and Income Tax $136,325.10 off that, yes, that is right, leaving a net amount of $459,023.04.

THE COMMISSIONER: How much for Goodwill ?

MR. MORDEN: $6,448,915.50. Now, can you give me the profits made by the company prior to the incorporation -- oh, by the way, before I take that, Mr. Howson; all of the shares are owned by the parent company, Courtaulds of England ? A. With the exception of the qualifying shares.

Q. With the exception of the qualifying shares; I just went to get the record complete .

BY THE COMMISSIONER: Q. That is the directors' qualifying shares ? A. Yes, sir. The profits for the company in 1926 were $448,092.00 and in 1927, $939,492.80 and of which was paid Income Tax of $197,883.88 leaving a figure of $852,884.80 for that year.

BY MR. MORDEN:

Q. For that year or for the two years ? A. For that year.

Q. Is that 1926 ? A. 1927; it is $448,095. for 1926.

. Four hundred and how much ? A. $603,644.55 for 1927 after Income

Q. Then, I just went to get the total of that.

MR. DIXON: Then, there is another eight months.

BY MR. MORDEN: Q. Then, there is another eight months, that is quite right, before the incorporated company started to operate ? A. Net profit on sales, $[illegible],044.14 and Income Tax $136,398.10 off that,

Q. How much ? A. $459,023.04.

Q. That formed part of the cash investment when the company operated -- started to operate; those profits were left here and for them stock issued in the new company ? A. Yes. These profits stood at the credit of Courtaulds Limited at the time the branch was closed and the business transferred to the new companies, and stock was issued to the Courtauld Company for this and the cash that was subsequently put in.

Q. That is right; all I am getting at is just distinguishing the amount of capital that came in from England from the amount of capital that was created by the operations of the branch here and came from that source. The total then at the credit of the branch here when the company started to operate, as Mr. Davidson gives it to me is $1,704,762.65 ? A. Yes, that would be correct.

Q. All right then, that gets us started with the corporation, the Canadian corporation. None of the shares are preferred shares, or is there any preference between the classes of shares now ? A. I have not seen the charter but in the company's statement they apparently make no distinction between the dividends, they call them all Common dividends.

MR. DIXON: There is only a preference on repayment of capital, no preference in the dividends. That is the only difference between the two classes.

BY MR. McRUER: Q. At the present time they are all owned by the same company and it won't make much difference, I suppose ? A. No.

Q. How much ? A. $459,028.04.

Q. That formed part of the new investment when the company commenced -- started to operate. Those profits were left here and for them stock issued in the new company ? A. Yes. These profits stood at the credit of Canadian Limited at the time the branch was closed and the business transferred to the new company and also are issued on the Provincial Company for this and the cash that was subsequently put in.

Q. That is right; all I am getting at is just distinguishing the amount of capital that came in from Dwyland from the amount of capital that was created by the operations of the branch here and came from that source. The total then at the credit of the branch here when the company started to operate, as Mr. Davidson gives it to me is $1,704,732.08 ? A. Yes, that would be correct.

Q. All right then, that gets us started with the corporation, the Canadian corporation. None of the shares are preferred shares, or is there any preference between the classes of shares now ? A. I have not seen the charter but in the company's statement they apparently make no distinction between the dividends, they call them all Common dividends.

MR. DIXON: There is only a preference on repayment of capital, no preference in the dividends. That is the only difference between the two classes.

BY MR. MONK K.C.: Q. At the present time they are all owned by the same company and it won't make much difference, I suppose ? A. No.

Q. They can settle that themselves. The total sales of Courtaulds Limited from 1926 to the end of the fiscal year 1935 have amounted to how much ? A. $34,891,028.86.

Q. And on that they have made a gross profit of how much ? A. A gross profit before depreciation of $11,756,557.50, a rate of 33.69 per cent of sales.

Q. And the net profit after depreciation ? A. The net profit after depreciation ?

Q. Or before depreciation , rather ? A. $10,561,997.87, making a percentage of 30.27 of sales.

Q. Now, in that ten year period how much have they charged to depreciation ? A. $4,553,352.09.

Q. And the percentage of sales ? A. 13.05.

Q. And their total gross profit after depreciation? A. $7,203,205.41, 20.64 per cent.

Q. Their net profit after depreciation ? A. $6,008,645.78, that is 17.22 per cent.

Q. Now, in addition to the depreciation of $4,553,352.09 what have they charged to operations for repairs to buildings, machinery and so on ? A. $1,183,198.55, that is 5.20 per cent of the sales.

MR. DIXON: Shouldn't that be $1,813 --

BY MR. McRUER: Q. $1,183,000. A. I thought that looked wrong, yes, $1,813,000., that is right.

Q. $1,813,000, I see, there is a figure transposed there ? A. Yes, I just got this this morning from the stenographer and had not time to check them.

Q. Yes, the eight and the one are transposed, but the 5.20 per cent will be right. A. 5,20 is correct, yes.

Q. Now, in that time they have paid in total mill wages how much ? A. $8,924,831.92.

Q. And the percentage of sales ? A. 25.6 per cent.

Q. 25.6; now, the total net profit before depreciation appears to be 30.27 per cent as against 25.6 per cent paid in mill wages ? A. That is what this statement shows.

Q. And that total net profit is arrived at after this payment of $1,813,198.55 for repairs to buildings and machinery and so on -- A. Yes.

Q. That is charged to that ? A. Yes.

Q. Now, this was a new mill, we are told, commenced in the year 1924, I think, just prior to this ten-year period. Have you anything that would give us any information as to in what years these repairs to buildings and machinery were charged to operations ? A. Yes.

Q. Can you give us the figures by years ?

A. Do you want starting with 1926 ?

Q. Yes ? A. 1926, $83,153.97; 1927, $100,752.56.

Q. $100,000 ? A. $100,752.56.

Q. Yes ? A. 1928 was the year in which the new company -- it is divided -- $141,819.10.

Q. Just a moment, $141,819.10; well, I just was a little misleading in a statement of mine. I said this was the new mill starting operations in 1924 and it really started in 1926 ? A. In 1924 ?

Q. 1926 is right ? A. I am just giving you the figures from 1926.

Q. Yes, for the ten-year period ? A. 1929, $133,857.67; 1930, $174,581.62; 1931, $212,215.90.

Q. $212,000 ? A. Yes; 1932, $205,995.48; 1933, $223,313.98; 1934, $229,394.54; 1935, $308,113.73.

Q. Then, the depreciation amounting to -- A. $4,000,000.

Q. $4,555,352. bears what relation to the total capital invested in plant and machinery ? Can you give me the figure of total capital invested in plant and machinery ? A. I will have to give it to you in two sections. The investment by the branch, land $20,000., buildings, $1,463,535.08.

Q. Just a moment now till I get myself straight here; land $20,000. and buildings -- A. $1,463,535.08.

Q. Yes ? A. Machinery and equipment $2,494,662.76.

Q. Yes ? A. That is a total investment of $3,978,197.84.

Q. That is by the branch ? A. That is by the branch; additional investment made by the new company in buildings and machinery $5,702,810,06. The depreciation set up by the branch was $1,192,922.00. Well, the total of the two would be $4,553,352.

Q. Well then, the total cash invested in plant and machinery amounts to in round figures $9,600,000. -- $9,600,000? A. Yes, $9,681,000., and the depreciation charged to operations -- this is over the whole period, you see, not the ten-year period.

Q. Yes, for the whole period ? A. Was $4,776,980.70.

Q. And $1,813,198.55 for repairs ? A. In

A. Yes, for the two-year period ending December 31st, 1929, $183,869.67; 1930, $174,891.82; 1931, $212,215.90.

Q. And? A. Yes; 1932, $205,965.49; 1933, $283,315.98; 1934, $239,364.54; 1935, $302,112.72.

Q. Then, the depreciation amounting to --

A. $1,[illegible],000.

Q. $1,[illegible]. Before when? Pointing to the total capital invested in plant and machinery ? Can you give me the figure of total capital invested in plant and machinery ? A. I will have to give it to you in two sections. The investment by the bronch, land $20,000., buildings, $1,463,585.08.

Q. Just a moment now till I get myself straight here; land $20,000. and buildings -- A. $1,463,585.08.

Q. Yes ? A. Machinery and equipment $3,494,982.76.

Q. Yes ? A. The is a total investment of $5,978,137.84.

Q. That is by the bronch ? A. That is by the bronch; additional investment made by the new company in buildings and machinery $5,702,810.06. The depreciation set up by the bronch was $1,182,882.00. Well, the total of the two would be $4,885,692.

Q. Well then, the total cash I vested in plant and machinery amounts to in round figures $5,000,000. -- A. Yes, $5,081,000., and the depreciation -- this is over the whole period, you see, not the one-year period.

addition.

Q. In addition ; so that in the ten-year period the fund set aside for depreciation is almost half of the total amount invested in the plant and machinery ? A. Yes, very close to half.

MR. DIXON: The eleven-year period; it is right from 1924. These figures he gave you were from the start of the company.

MR. McRUER: In the ten-year period the amount set aside for depreciation --

MR. DIXON: It is the eleven-year period, from 1924.

THE WITNESS: It is the total depreciation $4,776,000., that is from 1924. The $4,553,000. was for the ten-year period.

BY MR. McRUER: Q. All I need to do is add on the depreciation set aside by the branch for the first year ? A. For the first year.

Q. How much was that ? A. That was the difference.

Q. About $200,000.? A. Yes, about $223,000.

Q. Now, we will see what has come of the profits. The net profit from operations after making all allowances for depreciation, repairs, and matters of that sort amounts to how much ? A. Including income from outside investments ?

Q. Yes ? A. $6,286,103.78.

Q. And they have paid in taxes how much ? A. $870,300.

Q. Does that include municipal taxes ?

A. This $870,300. ?

Q. Yes ? A. No, this is just income taxes.

Q. Municipal taxes would be charged to operations ? A. Oh, yes, before the profit was arrived at.

Q. And the disposition of this sum of $6,000,000 ? A. There was credited to Courtaulds, England prior to the incorporation of the company $1,245,739.

Q. That is the fund that we talked about before that was credited to the parent company and re-invested by the parent company in plant and machinery here ? A. Yes.

Q. For which common stock was issued ? A. Yes.

Q. For which stock was issued, rather ? A. Yes. Dividends were paid of $1,567,500.

Q. Yes? A. Goodwill was written down by $1,305,915., a reserve was set up for bad debts of $76,845. an additional reserve/renewals to plant No. 1 was set up of $175,000. There were some miscellaneous adjustments amounting to $16,256. leaving a balance standing at the credit of the profit and loss account on December 31st, 1935 of $1,028,548.

Q. Now, I want to carry the analysis that I was making a moment ago one step further to see if I am right. I said that depreciation was charged to operations which amounted to almost half of the total investment in land, plant and machinery. Then, after the Income Taxes were paid the company had a net profit over the period of $5,415,000.? A. Right.

Q. So that if we add $5,415,000. to the depreciation fund we get almost exactly $10,000,000., close to it. You see, I am really taking the net profit before

Q. This [illegible] ?

A. No, this is just income taxes.

Q. Realized taxes would be charged to commissions ?

A. Oh, yes, before the profit was arrived at.

Q. And the disposition of this sum of $4,000,000 ?

A. There was credited to Securities, realized prior to the incorporation of the company $1,648,726.

Q. That is the fund that we talked about before the [illegible] was credited to the present company and re-invested by the parent company in plant and machinery here ?

A. Yes.

Q. For which common stock was issued ? A. Yes.

Q. For which stock was issued, wasn't ? A. Yes.

[illegible] was paid $1,877,000.

Q. That ? A. Goodwill was written down by $1,355,918., a reserve was set up for bad debts of $76,845. an additional reserve/reserves to plant No. 1 was set up of $15,000. There were some miscellaneous adjustments amounting to $24,956. Leaving a balance standing at the credit of the profit and loss account on December 31st, 1945 of $1,029,548.

Q. Now, I want to carry the analysis that I was making a moment ago one step further to see if I am right. I said that depreciation was charged to operations which amounted to almost half of the total investment in land, plant and machinery. Then, after the income taxes were paid the company had a net profit over the period of $2,414,000 ? A. Right.

Q. So that if we add $4,845,000. to the depreciation fund we get almost exactly $10,000,000., close to

depreciation and subtracting the Income Tax. They paid that in taxes ? A. You are taking the net profit after depreciation ?

Q. No, I am taking the depreciation plus the net profit after paying the income tax ? A. Yes, that would be over $10,000,000.

Q. $10,000,000. so that the company since it started operations has realized enough profit in its operations in Canada to pay the whole investment in plant and machinery and have a surplus besides of about $400,000.? A. Yes, that would be right.

Q. That is a correct computation ? A. A correct computation, yes.

Q. I just want to see in what position they are now to fly without much assistance.

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ROBT. BRYDIE

You have, I think, a memorandum that more or less summarizes just what I have been dealing with now, in addition to the summary you have compiled, Mr. Howson, and I think it would be an advantage for us to have this on the record.

THE COMMISSIONER: What is this?

MR. McRUER: This is a memorandum re the capital structure of Courtaulds, re operation, re profit and loss accounts, and re fixed assets and depreciation. I am putting this in because I have just examined Mr. Howson upon it and I have also examined Mr. Johnson and Mr. Jones on substantially the same memorandum, but I notice that it was not filed.

THE COMMISSIONER: That will be Exhibit 902.

EXHIBIT 902: Memorandum re capital structure of Courtaulds.

BY MR. McRUER: Q. You have an annual statement of Courtaulds, haven't you, Mr. Howson? I would like to put it on the record if I could.

A. I do not think they turned in any annual statements.

MR. McRUER: You can supply us with a set perhaps, Mr. Dixon, cant you?

MR. DIXON: We have supplied full answers to the questionnaire.

MR. McRUER: Probably you do not print an annual statement.

MR. DIXON: No, it is purely a private company.

MR. McRUER: That is quite all right. I think we have everything in the answers to the

You have, I think, a memorandum that more or less summarizes just what I have been dealing with now, in addition to the summary you have compiled, Mr. Bowen, and I think it would be an advantage for me to have this on the record.

THE COMMISSIONER: What is this?

MR. MORAN: This is a memorandum to the Capital Structure of Courtenaide, re operation, re Profit and Loss account, and re fixed assets and depreciation. I am putting this in because I have just examined Mr. Dixon upon it and I have also examined Mr. Bowen and Mr. Jones on substantially the same memorandum, but I notice that it was not filed.

THE COMMISSIONER: That will be Exhibit 302.

EXHIBIT 302: Memorandum re Capital Structure of Courtenaide.

BY MR. MORAN: Q. You have an annual statement of Courtenaide, haven't you, Mr. Bowen? I would like to put it on the record if I could.

A. I do not think they turned in any annual statement.

MR. MORAN: You can supply us with a set perhaps, Mr. Dixon, can't you?

MR. DIXON: We have supplied Mr. Bowen to the Commission.

MR. MORAN: Probably you do not print an annual statement.

MR. DIXON: No, it is purely a private company.

MR. MORAN: That is quite all right. I think we have everything if the Commission

questionnaire that would be in the annual statements.

THE WITNESS: Yes, the questionnaire was very complete.

BY MR. McRUER: Q. Then you have prepared, Mr. Howson, an analysis which sets out a summary of the operations of Courtaulds? A. Yes, sir.

MR. McRUER: This will be the next exhibit, my lord. It is a summary of operations of Courtaulds.

THE COMMISSIONER: It is a summary, not an analysis.

MR. McRUER: No, it is a summary from year to year.

THE WITNESS: From 1936 to 1935.

MR. McRUER: And the Celanese Company is in the same exhibit, my lord. A note might be made of that, I do not propose to deal with it today. I wonder if we could just take this relating to Celanese out of this exhibit, Mr. Howson.

THE COMMISSIONER: It would be better if it could be done.

MR. McRUER: We will just make the exhibit Courtaulds.

THE COMMISSIONER: That will be Exhibit 903.

EXHIBIT 903: Summary of operations, 1926 to 1935, Courtaulds (Canada) Ltd.

BY MR. McRUER: Q. There is just one question I want to ask you in regard to the previous exhibit, 902, and that is in reference to the writing off of the good will. In the memorandum

questionnaire that would be in the annual statements.

THE WITNESS: Yes, the questionnaire was very complete.

BY MR. MONDOR: Q. Then you have pictured, Mr. Bowen, an analysis which sets out a summary of the operations of Courtenlaf? A. Yes, sir.

MR. MONDOR: This will be the next exhibit, My Lord. It is a summary or operations of Courtenlaf.

THE COMMISSIONER: It is a summary, not an analysis.

MR. MONDOR: No, it is a summary from year to year.

THE WITNESS: From 1936 to 1945.

MR. MONDOR: And the Celanese Company is in the same exhibit, my Lord. A note might be made of that. I do not propose to deal with it today. I wonder if we could just take this relating to Celanese out of this exhibit, Mr. Bowen.

THE COMMISSIONER: What will be Exhibit 90?

EXHIBIT NO. 90: Summary of operations, 1936 to 1945, Courtenlaf (Canada) Ltd.

Q. Now, Mr. Bowen, there is [illegible] exhibit, 90? A. That is in reference to the [illegible] of the year 1941. In the memorandum

in regard to the disp sition of the profits there is charged to good will $1,305,915.00. I do not just quite understand the accounting operation that takes place. Will you explain that, Mr. Howson? A. Well, really good will had no tangible value behind it, and by writing off to profits they have really appropriated accumulated profits against the good will, and to that extent have set up tangible assets against the good will that was created in the first place.

Q. Had there been nothing set up in the capital structure of the company for good will, then this $1,305,915.00 would show as an addition -- A. As an addition to their undistributed surplus.

Q. An addition to their undistributed surplus? A. Yes.

Q. So in the first place there was nothing invested for good will. They set up a charge against capital for it, and then wrote it down? A. Yes.

Q. Now this exhibit 903 deals with capital employed in operations, that is invested capital plus accumulated reserves and -- A. Accumulated profits.

Q. Accumulated profits. A. Up to that point.

BY THE COMMISSIONER: Q. Put into capital? A. Yes, left in the business, remaining in the business.

BY MR. McRUER: Q. And there are no bank loans with this company? A. No.

ROBT. BRYDIE

to regard to the disposition of the profits there
is reserved to good will $1,805,915.00. I do not
just quite understand the explanation you
have given. Will you explain that, Mr. Howard?

A. Well, really good will has no tangible value
behind it, and by writing off to profits they have
really appropriated accumulated profits against
the good will, and to that extent have set up
tangible assets against the good will that was
created in the first place.

Q. Had there been nothing set up in the
profit statement of the previous year at all,
then this $1,805,915.00 would show as an addition --
A. As an addition to their undistributed surplus.

Q. An addition to their undistributed surplus?

A. Yes.

Q. So in the first place there was nothing
invested for good will. They set up a charge
against capital for it, and then wrote it down?

A. Yes.

Q. Now this exhibit 302 deals with capital
employed in operations, that is invested surplus
plus accumulated reserves and -- A. Accumulated
profits.

Q. Accumulated profits. A. Up to that
point.

Q. Yes. Left in the business, remaining in the
business.

Q. And there are no bank loans
A. No.

Q. Well, if the company writes down its plant, depreciates its plant out of profits, you treat that as capital invested in the business? A. No.

Q. You take the depreciated value --

A. Take the depreciated value of the plant.

Q. You take the depreciated value of the plant plus the balance at the credit of surplus account? A. Well, plus all the other assets less the liabilities. It represents the capital and the accumulated profits.

Q. That is all the assets that the company owns, these accumulated profits? A. Yes.

Q. And it does not make any difference how it has acquired those assets, whether they have really been acquired out of profits or in what way? A. No.

Q. You treat them as capital invested? A. As capital employed.

Q. As capital employed rather. A. Yes.

Q. It is not the same thing as capital invested originally or anything of that sort? A. No, this statement was for the purpose of determining the earnings on the capital employed from year to year.

Q. Yes. They have capital employed outside operations, that is in investments and securities, and so on? A. Yes.

Q. I see that this company in 1935 has an investment outside of its operations of $1,425,662.50. A. Yes.

Q. Now the percentage earned on capital employed

Q. Well, if the company writes down its plant, depreciates its plant out of profits, you treat that as capital invested in the business?

A. No.

Q. You treat the theoretical value —

A. Take the depreciated value of the plant.

Q. You take the depreciated value of the plant plus the balance at the credit of surplus account? A. Well, plus all the other assets less the liabilities. It represents the capital and the accumulated profits.

Q. That is all the assets that the company —— Yes.

Q. And it does not make any difference how it has acquired those assets, whether they have really been acquired out of profits or in what way?

A. No.

Q. You treat them as capital invested?

A. As capital employed.

Q. As capital employed rather. A. Yes.

Q. It is not the same thing as capital invested originally or anything of that sort?

A. No, this statement was for the purpose of determining the earnings on the capital employed from year to year.

Q. Yes. Then your capital employed remains, that is in investments and everything, and so on? A. Yes.

Q. I see that this company in 1932 has an investment outside of its ——— of £1,422,622.

A. Yes.

Q. Now the percentage earned on capital employed

in the business in 1926 was 13.2. That is correct? A. That is right.

Q. In 1927, 26.2 per cent? A. Right.

Q. In 1928 it was 20.5 per cent? A. Right.

Q. In 1929, 9.7 per cent? A. Right.

Q. In 1930, 6.5 per cent? A. Right.

Q. In 1931, 7.0 per cent? A. Right

Q. In 1932, 6.1 per cent? A. Right.

Q. In 1933, 9.6 per cent? A. Right.

Q. In 1934, 13.8 per cent? A. Right.

Q. In 1935, 14.2 per cent? A. Right.

Q. So that during that ten-year period the company never made less than 6.1 per cent on the capital employed in its operations and never more than 26.2 per cent? A. According to these figures.

Q. Yes. Another comparative statement appears at the bottom of the page in regard to sales. In 1926 the gross profit to sales before depreciation, and this would be before selling expenses too, would it? A. Yes.

Q. Amounted to 44.0 per cent; in 1927, 40.4 per cent; in 1928, 41.5 per cen ; in 1929, 28.9 per cent; in 1930, 24.2 per cent; in 1931, 24.9 per cent; in 1932, 36.0 per cent; in 1933, 27.9 per cent; in 1934, 36.6 per cent; in 1935, 25.5 per cent? A. That is correct.

THE COMMISSIONER: What did you say about the selling expenses, Mr. McRuer?

MR. McRUER: This is before selling expenses.

BY THE COMMISSIONER: Q. Just where do you

correct?

A. That is right.

Q. In 1927, 86.2 per cent?

A. Right.

Q. In 1928 it was 86.5 per cent?

A. Right.

Q. In 1929, 9.7 per cent?

A. Right.

Q. In 1931, 7.0 per cent?

A. Right.

Q. In 1932, 6.1 per cent?

A. Right.

Q. In 1933, 9.6 per cent?

A. Right.

Q. So that during that ten-year period the company never made less than 6.1 per cent on the capital employed in its operations and never more than 86.5 per cent?

A. According to those figures.

Q. Yes. Another comparative statement appears at the bottom of the page in regard to sales. In [illegible] sales would be [illegible] it?

A. Yes.

Q. Amounted to 44.0 per cent; in 1927, 40.4 per cent; in 1928, 41.5 per cent; in 1929, 28.9 per cent; in 1930, 24.2 per cent; in 1931, 24.9 per cent; in 1932, 23.0 per cent; in 1933, 27.3 per cent; in 1934, 36.4 per cent; in 1935, 41.2 per cent?

A. That is correct.

THE CHAIRMAN: What did you say about the [illegible] expenses, Mr. MCNARY?

[illegible]

Q. Just where do you

take out selling expenses? A. Between gross profits after depreciation and net profits.

Q. You do not show it itemized? A. Not on that statement, no.

BY MR. McRUER: Q. It comes to 3.6 per cent on the first year? A. The difference between those last two items.

Q. That is what constitutes the whole? A. That would be the selling and administration.

Q. Curiously enough, up until 1931 it seems to run almost constantly at 3 and a fraction per cent, and then in 1932 it jumps to 5.2 per cent. A. Then it drops again.

Q. It comes down again. A. To 3.6 per cent, 3.7 per cent and 3.5 per cent.

Q. Yes. Have you any information on the answers to the questionnaire that indicates to you how the selling expenses are made up? A. I have the full details.

Q. Take the year 1935, for instance. Just how is it divided up there? Apparently there was about $200,000 absorbed in selling expenses. A. Under the heading of selling and distribution the items appear as follows: Management, salaries and commissions, $19,215.60; other salaries, $10,735; agency expenses, $18,395.67; advertising, $47,219.56; carriage outwards -- that would be freight and express out -- $62,283.86; bad debts, $627.31; bank charges, $2,663.86, making a total of $161,140.86 for selling expenses, and in addition there were administration expenses.

take out selling expenses? A. Between gross profits after depreciation and net profits.

Q. You do not show it itemized? A. Not on that statement, no.

BY MR. McPHERSON: Q. It comes to 3.6 per cent on the first year? A. The difference between those last two items.

Q. That is what constitutes the whole? A. That would be the selling and administration.

Q. Curiously enough, up until 1931 it seems to run almost constantly at 5 and a fraction per cent, and then in 1932 it jumps to 5.2 per cent.

A. Then it drops again.

Q. It comes down again. A. To 3.6 per cent, 3.7 per cent and 3.5 per cent.

Q. Yes. Have you any information on the answers to the questionnaire that indicates to you how the selling expenses are made up? A. I have the full details.

Q. Take the year 1933, for instance. Just how is it divided up there? Apparently there was about $200,000 absorbed in selling expenses.

A. Under the heading of selling and distribution the items appear as follows: Management, salaries and commissions, $13,213.60: other salaries, $10,758; agency expenses, $18,395.67; advertising, $47,219.56; carriage outwards -- that would be freight and express out -- $62,288.86; bad debts, $627.21; bank charges, $3,665.86, making a total of $155,160.86 for selling expenses, and in addition there were administration expenses.

Q. What was the total for selling expenses? A. $161,140.86. Then President's remuneration, $8,862.41; legal and audit fees, $3,339.38; directors' fees, $7,000; subscriptions and donations, $1,415, making a total of $20,616.79.

Q. Did they have a reserve for bad debts? They did, did they not? A. Yes.

MR. McRUER: Mr. Davidson has just instructed me that that large increase in selling expenses in 1932 was due to a write-off of a large bad debt, about $40,000.

MR. DAVIDSON: A total write-off of $46,800.

MR. McRUER: $46,800 for bad debts that year.

THE COMMISSIONER: The bad debt was written off between gross profit and net profit?

MR. McRUER: It apparently was that year.

THE WITNESS: Yes.

BY THE COMMISSIONER: Q. That would be the regular way? A. Part of the expense of running the business and collecting the accounts.

Q. Why should it not be charged against the reserve for bad debts? A. They want to maintain their reserves, I presume, at the figure which was set up.

THE COMMISSIONER: It may be a debt contracted in previous years. A. Yes, different practices are followed by different companies. Some write off all their bad debts each year. Other companies set up reserves and charge the bad accounts each year against the reserve, and then set aside out of current profits enough to bring the reserve

Q. What was the total for selling expenses?

A. $151,140.86. Then there's depreciation, $8,885.41; legal and audit fees, $4,380.88; directors' fees, $7,000; subscriptions and donations, $1,415, making a total of $30,616.79.

Q. Did they have a reserve for bad debts? They did, did they not? A. Yes.

MR. MORGAN: Mr. Davidson has just instructed me that that large increase in selling expenses in 19.. was due to a write-off of a large bad debt, about $40,000.

MR. DAVIDSON: A total write-off of $46,800.

MR. MORGAN: $46,800 for bad debts that year.

THE COMMISSIONER: The bad debt was written off between gross profit and net profit?

MR. MORGAN: It apparently was that year.

THE WITNESS: Yes.

BY THE COMMISSIONER: Q. That would be the regular way? A. Part of the expense of running the business and collecting the accounts.

Q. Why should it not be charged against the reserve for bad debts? A. They went to maintain their reserves, I presume, at the figure which was set up.

[illegible] in previous years. A. Yes, different practices are followed by different companies. Some write off all their bad debts each year. Other companies set up reserves and charge the bad accounts

up again. The practice is not uniform at all.

BY MR. McRUER: Q. Well, at any rate, what was done in 1932 was charged to bad debts against the year's operations, and then we have this reserve of $76,845 still maintained. A. Well, the reserve is still outstanding.

MR. DAVIDSON: It was not actually bad debts written off. The reserve was increased in 1932. In 1931 the bad debts reserve was $3,000, and at the end of 1932 it was $50,000, so the reserve was increasing.

MR. McRUER: I see. That is a little different. Mr. Davidson says there was an increase in the reserve. They probably got a little nervous about some of their accounts about that time.

MR. DAVIDSON: They increased their reserve in 1932 by approximately $47,000, and in each of the following years by $10,000.

THE WITNESS: Yes, it shows in the surplus account.

BY MR. McRUER: Q. In the answer to the questionnaire? A. Yes.

Q. Just let us see what increases were made in the reserve for bad debts. A. They transferred in 1932 $46,845; in 1933, $10,000 and in 1934, $10,000.

Q. So that in those years that we have been dealing with, what we may call the depression years, these percentages of net profit that you have given us are, after making these transfers to the reserve for bad debts? A. No, I do not think so.

MR. DAVIDSON: Yes, we put those figures in

up again. The practice is not uniform at all.

BY MR. McPEAK: Q. Well, at any rate, what was done in 1932 was charged to bad debts against the year's operations, and then we have this reserve at [illegible]

MR. MACDONALD: It was not actually bad debts written off. The reserve was increased in 1932. In 1931 the bad debts reserve was $8,000, and at the end of 1932 it was $30,000, so the reserve was increased.

MR. McPEAK: I see. That is a little different. Mr. Davidson says there was an increase in the reserve of their accounts about that time.

MR. DAVIDSON: They increased their reserve in 1932 by approximately $47,000, and in each of the following years by $10,000.

THE WITNESS: Yes, it shows in the surplus account.

BY MR. McPEAK: Q. In the answer to the questionnaire? A. Yes.

Q. Just let us see what increases were made in the reserve for bad debts. A. They increased in 1928 $45,845: in 1929, $10,000 and in 1930, $10,000

dealing with. What we may call the depression years, there [illegible] us are, after having these [illegible] to the reserve

administration, Mr. Howson.

THE WITNESS: Oh, I see. Just let me see that working sheet, will you, Mr. Davidson? Yes, in these figures they are included in administration expenses as a charge.

BY MR. McRUER: Q. But there does not seem to have been any debits to the reserve for bad debts. A. Not yet.

Q. Independent of this transfer to reserve for bad debts they have entirely taken care of their bad debts in the meantime? A. Yes, out of current operations.

Q. Out of current operations. So that this statement then, the percentage of net revenue applicable to total capital employed, that is after providing this reserve for bad debts? A. Yes.

Q. And it is after providing all other -- A. Depreciation.

Q. Depreciation and so on? A. Yes.

Q. So, if the reserve for bad debts, which has not been encroached upon, were taken out of net profits or net revenue applicable to the total capital employed, it would raise these percentages materially? A. Yes.

Q. Here is something that troubles me a little, Mr. Howson. Referring again to Exhibit 903, the low point for gross profit before depreciation was reached in 1930 when it was 24.2 per cent. A. Yes.

Q. The low point for net profit was at the same time -- yes, that is right. I thought for a

administration, Mr. Howson.

THE WITNESS: Oh, I see. Just let me see that working sheet, will you, Mr. Davidson? Yes, in expenses as a charge.

BY MR. MERTZ: Q. But there does not seem to have been any debits to the reserve for bad debts.

A. Not yet.

Q. Independent of the transfer to reserve for bad debts they have entirely taken care of their bad debts in the meantime? A. Yes.

Q. Out of current operations. So that this statement then, the percentage of net revenue applicable to total capital employed, that is after providing this reserve for bad debts? A. Yes.

Q. And it is after providing all other --

A. Depreciation.

Q. Depreciation and so on? A. Yes.

Q. So, if the reserve for bad debts, which has not been encroached upon, were taken out of net profits or net revenue applicable to the total capital employed, it would raise these percentages materially? A. Yes.

Q. Here is something that troubles me a little, Mr. Howson. Referring again to Exhibit 908 the low point for gross profit before depreciation was reached in 1930 when it was 2%.3 per cent.

A. Yes.

Q. [illegible]

moment that it was for another year, and I could not understand it. The low point for the return on the capital employed was 1932. The net profit to sales was 10 per cent in 1932, but their return on capital employed was 5.1 per cent? A. Yes.

Q. I wonder what the explanation of that would be. A. They are entirely different items.

Q. But on the earnings of the business, at any rate, their low point seems to have been in the year 1920 for the ten-year period. A. That is on sales, percentage on sales.

Q. On sales, yes. A. Yes.

Q. Well, I think that exhausts Courtaulds.

CROSS-EXAMINATION BY MR. DIXON.

Q. Mr. Howson, in arriving at this figure of capital employed in operations, I understand that you take the total of assets which were shown to you on the statement filed, and deduct from that the amount shown for good will. A. That is right, and the trade liabilities of the company.

Q. I was just going on to that.

BY THE COMMISSIONER: Q. But you put all the other assets into operation? A. Take all the assets at their book value, deduct the liabilities, and then deduct the good will.

BY MR. DIXON: Q. Now shown on the assets and liabilities are the accounts payable, trade. That is taken out? A. Yes.

moment that it was for another year, and I could not understand it. The low point for the return on the capital employed was 1932. The net profit to sales was 10 per cent in 1932, but their return on capital employed was 8.1 per cent? A. Yes.

Q. I wonder what the explanation of that would be. A. They are entirely different items.

Q. But on the certificate of the business, it may have, their low point seems to have been in the year 1930 for the ten-year period. A. That is on sales, percentage on sales.

Q. On sales, yes. A. Yes.

Q. Well, I think that exhausts Counsel's.

CROSS-EXAMINATION BY MR. BLACK.

Q. Mr. Bowers, in arriving at this figure of capital employed in operations, I understand that you take the total of assets which were shown to you on the statement filed, and deduct from that the amount shown for good will. A. That is right, and the trade liabilities of the company.

Q. I was just going on to that.

BY THE COMMISSIONER: Q. But you put all the

BY MR. BLACK: Q. How shown on the assets and liabilities are for accounts payable, trade.

Q. Then in those?

Q. Accrued wages, commissions, etc. That comes out? A. Yes.

Q. Preferred dividends in some years, not every year -- that comes out? A. Well, that would be a liability.

Q. And it would come out? A. Yes.

Q. Notes payable -- that comes out? A. Yes.

Q. And provision for contingencies and government taxes -- that comes out ? A. Yes.

Q. And the next item is bad debts reserve. That comes out? A. Yes.

Q. The general reserve I understand does not come out because that is capital. A. That is right.

Q. In answer to my friend you said, Mr. Howson, that if we disregarded these bad debt reserves, it would increase the percentage of profit. Am I not right in saying that that has already been disregarded?

THE COMMISSIONER: Please put that again.

BY MR. DIXON: Q. In answer to my friend you said, Mr. Howson, that if the bad debt reserve was disregarded, taken out of our calculations --

THE COMMISSIONER: Taken out entirely?

MR. DIXON: Taken out of the assets. The point I am making is that it has already been taken out. Is that right, Mr. Howson?

THE WITNESS: I understood Mr. McRuer's question to be this, if the bad debt reserve had not been charged against profits, the profits would be greater

Q. Assumed wages, commissions, etc. That comes out?

A. Yes.

Q. Preferred dividends in some years, not every year -- that comes out? A.Well, that would be a liability.

Q. And it would come out? A. Yes.

Q. Bonus depreciation -- that comes out?

A. Yes.

Q. And provision for contingencies and government taxes -- that comes out ? A. Yes.

Q. And the next item is bad debts reserve. That comes out? A. Yes.

Q. The general reserve I understand does not come out because that is capital. A. That is right.

Q. In answer to my friend you said, Mr. Howson, that if we disregarded these bad debt reserves, it would increase the percentage of profit. Am I not right in saying that has already been disregarded?

THE COMMISSIONER: Please put that again.

BY MR. DIXON: Q. In answer to my friend you said, Mr. Howson, that if the bad debt reserve was disregarded, taken out of our calculations --

A. Taken out of the assets, the point I am making is that it has already been taken out. Is that right, Mr. Dixon?

THE COMMISSIONER: I understood Mr. Howson's question to be this, if the bad debt reserve had not been charged against profits, the profits would be greater

by that amount, and naturally the income on the investment would be greater. The investment would have to be adjusted, if you deal with it in that way, by leaving the reserve in.

BY MR. DIXON: Q. On this Exhibit 903 you show capital employed in operations, and then you show the revenue from operations and the percentage to capital employed, and in 1935, percentage to capital employed in operations is shown as 14.2 per cent. A. Yes.

Q. The bad debt reserve has had nothing to do with your arriving at that figure? A. The charge to bad debts has been taken out of the revenue.

Q. Yes, but the reserve itself is not shown as capital employed in the business? A. No, reserve.

Q. It has been disregarded for this purpose. A. We have reduced accounts receivable to the amount less the reserve.

THE COMMISSIONER: Is there some place where you can point out which items exactly you do include under the heading of capital employed in operations ?

MR. DIXON: No, you have to get that from the evidence that has been given.

THE WITNESS: It is in the company's questionnaire.

THE COMMISSIONER: Where abouts?

THE WITNESS: On the balance sheet, assets and liabilities.

by that amount, and naturally the income on the investment would be greater. The investment would have to be adjusted, if you deal with it in that way, by inserting the reserve in.

BY MR. OLSON: Q. On this Exhibit 908 you show capital employed in operations, and then you show the revenue from operations and the percentage to capital employed, and in 1929 percentage to capital employed in operations is shown as 14.5 per cent. A. Yes.

Q. The bad debt reserve has had nothing to do with your arriving at that figure? A. The charge to bad debts has been taken out of the revenue.

Q. Yes, but the reserve itself is not shown as capital employed in the business? A. No, reserve.

Q. It has been disregarded for this purpose.

A. We have reduced accounts receivable to the amount less the reserve.

THE COMMISSIONER: Is there some place where you can point out which items exactly you do include under the heading of capital employed in operations?

MR. OLSON: No, you have to get that from the evidence that has been given.

THE WITNESS: It is in the company's question-naire.

THE COMMISSIONER: Where about?

[illegible]

BY MR. DIXON: Q. Just one other question, Mr. Howson, about taking out the item of good will. When this company was incorporated in 1928 and took over the assets of the Canadian branch of the English business there was an item of $2,448,000 set up as good will. Now in the three years prior to 1928 the English branch of the company had made profits of $443,802, and about $500,000 for the eight months of 1928. Now is it your idea that it is bad accounting practice to set up any item for good will there? A. I am not discussing accounting practice in this at all. I am just setting out the facts in such a way that the Commissioner can see what has been set up on the books.

Q. You would bear with me if I said that this company took over a valuable asset in the English business which had been established in this country three years before? A. I think there is a certain amount of good will always in a profitable business.

Q. A little more then a certain amount of good will, is there not, in this case? A. Well, the company had been making profits; there is no question of that.

Q. Satisfactory profits? A. Yes.

Q. They took over certain patent rights? A. I cannot answer that definitely, but I presume they did according to your questionnaire. You say so. I have not made any examination.

MR. McRUER: They still own them.

BY MR. DIXON: Q. Just one other question, Mr. Howson, about taking out the item of good will. When this company was incorporated in 1928 and took over the assets of the Canadian branch of the English business there was an item of $4,448,000 set up as good will. Now in the three years prior to 1928 the English branch or the company had made profits of $448,802, and about $300,000 for the eight months of 1928. Now is it your idea that it is bad accounting practice to set up any item for good will there? A. I am not discussing accounting practice in this at all. I am just setting out the facts in such a way that the Commissioner can see what has been set up on the books.

Q. You would bear with me if I said that this company took over a valuable asset in the English business which had been established in this country A. I think there is a certain amount of good will always in a profitable business.

Q. A little more than a certain amount of good will. Is there not, in this case? A. Well, the company had been making profits; there is no question of that.

Q. Satisfactory profits? A. Yes.

Q. Keep that over private [illegible]

A. I cannot answer that definitely, but I presume that did according to your questionnaire. You say so. I have not made any examination.

MR. MORDEN: They still own them.

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MR. DIXON: Possibly they have expired.

MR. McRUER: I do not think you would let them do that.

BY MR. DIXON: Q. In taking out the item for good will in capital employed, that was simply done on instructions? A. Yes, in order to show the cash investment.

MR. McRUER: Of course the whole point in regard to good will in an investigation of this sort is that good will was created by a protective tariff.

MR. DIXON: That is surely a matter for argument.

BY MR. McRUER: Q. That is all for Courtaulds, my lord. Oh, Mr. Howson, of course the evidence is there but I think I shall require you to summarize something of what you have said in reference to management salaries and so on.

MR. DIXON: I do not quite understand what my friend is asking for.

MR. McRUER: I am just asking Mr. Howson to summarize what is already in in regard to management salaries paid over the period.

MR. DIXON: Now is the time to do it.

MR. McRUER: Do you want us to read them out? I am not going to do it. I want Mr. Howson to do the adding and subtracting instead of me.

MR. DIXON: He is pretty good at that.

(Page 12315 follows)

(Page 12515 follows)

Q. The first Company that I wish to deal with in the Real Silk group is the Associated Textiles of Louiseville.

THE COMMISSIONER: That is part of their name.

THE WITNESS: It is Associated Textiles of (Canada) Limited, with Canada in brackets.

MR. McRUER: Q. Now, have you got first the reply to the questionnaire? A. I have received from the Associated Textiles a questionnaire covering their own affairs.

Q. In answer to the questionnaire, rather? A. And also rayon Canada Limited and Ultra Chemical Company Limited, which latter two are subsidiaries.

THE COMMISSIONER: Q. We are dealing with Associated Textiles of Canada, Louiseville, and you say there are two subsidiaries? A. Yes, Rayon Canada Limited and ---

Q. And you have their questionnaires too, separate questionnaires? A. Yes.

Q. You are taking them altogether? A. Yes, and the Ultra Chemical Company Limited.

Q. Where is Rayon Canada Limited? A. That is Montreal, head office.

Q. That is not a mill? A. No, more of a selling Company.

Q. What is the other one? A. The Ultra Chemical Company Limited.

Q. Where is that? A. That is at Louiseville, I believe.

Q. What is that? A. They handle chemicals in connection with the Silk Industry, I understand.

MR. McRUER: It makes chemicals for the Associated, my lord.

THE COMMISSIONER: The other one is their selling Company, is it, Rayon of Canada? A. Well, they both sell, but this Company as far as I understand also deals in other merchandise not made by Associated Textiles. It is a trading corporation as well.

Q. Perhaps they are importers?

MR. McRUER: No, my lord. We had evidence from Mr. Marx in reference to them. They sell for Associated and also sell for Rayon, for mills, but I do not know that they do a very big business in that way, but he gave in evidence at Louiseville, pages 4186, 4187 and 4190, and 4143 in regard to these matters.

Q. And then there is another subsidiary of the Associated Textiles of Canada Limited, and that is, Associated Textiles of London, Limited.

THE COMMISSIONER: Q. That is a subsidiary of the same people? A. There was no return on that one.

MR. McRUER: Well, we have all the information in regard to that already before the Commission. That is a selling agency in London, England, for this Company? A. They made no individual returns but they referred to it on the Associated's returns as a subsidiary company.

connection with the Silk Industry, I understand.

MR. McHUGH: It makes chemicals for the Associated, my lord.

THE COMMISSIONER: The other one is their selling company, is it, Beyon of Canada? A. Well, they both sell, but this company as far as I understand also deals in other merchandise not made by Associated Textiles. It is a trading corporation as well.

MR. McHUGH: No, my lord. We had evidence from Mr. Marx in reference to them. They sell for Associated and also sell for Beyon, for milk, but I do not know that they do a very big business in that way, but he gave in evidence at Louisville, pages 4186, 4187 and 4190, and 4145 in regard to these matters.

Q. And then there is another subsidiary of the Associated Textiles of Canada Limited, and that is, Associated Textiles of London, Limited.

THE COMMISSIONER: Q. That is a subsidiary of the same people? A. There was no return on that one.

MR. McRUER: Well now, first I want to put in the answers to the questionnaire. Exhibit 904.

EXHIBIT 904: Answers to the Questionnaires in respect to Associated Textiles of (Canada) Limited.

THE COMMISSIONER: That is the main Company?

MR. McRUER: Yes. Then I want to put in answers to the questionnaire in respect to Rayon Canada Limited.

EXHIBIT 905: Answers to Questionnaire in respect to Rayon Canada Limited.

MR. McRUER: And the Ultra Chemical Company Limited?

EXHIBIT 906: Answers to the Questionnaire in respect to Ultra Chemical Company Limited.

MR. McRUER: Q. Well now, to commence with the parent company, the Associated Textiles of Canada Limited, that is a company having its mill at Louiseville?

A. Yes.

Q. And its head office at the City of Montreal?

A. Right.

Q. What is the capital structure of this Company?

A. It has outstanding $500,000 7% cumulative preferred stock of $100 par value, and $226,000 of common stock of a par value of $10.00 each. A total of $726,000.

THE COMMISSIONER: Q. That is the stock issued?

A. Yes, issued.

Q. Not the full stock authorized? A. No, the authorization was 5,000 shares in preferred.

MR. McRuer: Q. The Company commenced operations when? A. "The date of incorporation or

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MR. MONROE: Well now, first I want to put in the answers to the questionnaire. Exhibit 904.

EXHIBIT 904: Answers to the questionnaires in respect to Associated Textiles of Ontario) Limited.

MR. MONROE: Yes. Then I want to put in answers to the questionnaire in respect to Rayon Canada Limited.

EXHIBIT 905: Answers to questionnaire in respect to Rayon Canada Limited.

MR. MONROE: And the Ultra Chemical Company Limited

EXHIBIT 906: Answers to the questionnaire in respect to Ultra Chemical Company Limited.

MR. MONROE: Q. Well now, to commence with the paper company, the Associated Textiles of Canada Limited, that is a company having its mill at Lonsdaville?

A. Yes.

Q. Right.

A. It was originally [illegible] 75 cumulative preferred stock of $100 par value, and 3286,000 of common stock of a par value of $10.00 each. A total of $786,000.

THE COMMISSIONER: Q. That is the stock issued?

A. Yes, issued.

Q. How are they [illegible]? A. No, the authorization was [illegible] is preferred.

MR. MONROE: Q. The Company commenced operations

commencement of business" is given as April 15th, 1929.

Q. And were the shares that are outstanding now all issued at that date? A. No, the first issue, according to the questionnaire, was in January, 1930, 10,000 common shares at $10.00 each, realising $100,000 cash. The next issue was in September of the same year, 1000 shares of 7% cumulative preferred stock, realising $100,000 cash. In October the issue 12,600 common shares realising $126,000 cash, and another issue in October of 4,000 shares of preferred stock yielding $400,000. The stock was all issued during the year 1930.

Q. And how much was issued for cash? A. It was all issued for cash.

Q. What is the total again? A. $786,000.

Q. Now, the first complete year of operation was in 1931, was it? A. Their year ends on the 31st of July, 1931, at least their year ends on the 31st of July, and they show a return here for 1930, it is marked 1st of February to the 2nd of August, so that apparently they operated from the 1st of February 1930 to the 30th of August, and then stated with the first full fiscal year ending July 31st, on the following year.

Q. Then they start off with $750,000 cash invested. That was invested by the parent company in the United States, was it, Cohn, Hall and Marx? A. $726,000

Q. Or rather it was invested by United Merchants

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CHARTERED ACCOUNTANT
MONTREAL - CANADA

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6. And were the shares that are outstanding now all issued at that date? A. No, the first issue, according to the questionnaire, was in January, 1930, 10,000 common shares at $10.00 each, realizing $100,00 each. The next issue was in the month of the same year, 1000 shares of 7% cumulative preferred stock, realizing $100,000 each. In October the issue 14,800 common shares realizing $145,000 each, and another issue in October of 4,000 shares of preferred stock yielding $400,000. The stock was all issued during the year 1930.

Q. And how much was issued for cash? A. It was all issued for cash.

Q. What is the total capital? A. $986,000.

Q. Now, the first complete year of operation was in 1931, was it? A. Their year ends on the 31st of July, 1931, at least their year ends on the 31st of July, and they show a return here for 1930, it is marked 1st of February to the 2nd of August, so that apparently they operated from the 1st of February 1930 to the 30th of August, and then started with the first full fiscal year ending July 31st, on the following year.

That was invested by the parent company in the United

Incorporated which owns Cohn, Hall & Marx - that is correct? A. Well, they show under the name of shareholders - United Merchants and Manufacturers Incorporated and Cohn, Hall & Marx. I don't know what the connection is between the two.

Q. I think from the evidence we have before us we can consider them as the same people. I think United Merchants & Manufacturers Incorporated owned all the stock in Cohn, Hall & Marx? A. Between the two of them they own all the preferred shares and 22,520 shares of the common.

Q. Well, Exhibit 230 has the break-up of the remaining shares - Homer Loring, 10 shares; Rose Baron, 10 shares; Lawrence Marx, 20 shares; J.W. Schwab, 10 shares; J.H. Marx, 10 shares; A.H. Feldman, 10 shares; L.L. Smith, 5 shares; and Eva Heinl, 5 shares.

A. They appear to be the directors of the Company.

Q. They appear to be more or less qualifying shares. Now, the preferred stock bears interest at what rate? A. Seven per cent.

Q. Well now, I want to take up with you the operations of the Company since it started at Louisville, year by year, if I may. For the year ending 31st of July, 1931, - would that be a complete year or 18 months? A. Well, what are you looking at?

Q. I am looking at "Summary of operations," per sheet? A. That would be 18 months.

shareholders - United Merchants and Manufacturers Incorporated and Cobb, Hall & Metz. I don't know what the connection is between the two.

. I think from the evidence we have before us we can consider them as the same people. I think United Merchants & Manufacturers Incorporated owned all the stock in Cobb, Hall & Metz? A. Between the two of them they own all the preferred shares and 85,380 shares of the common.

Q. Well, Exhibit 280 has the break-up of the remaining shares - Homer Loring, 10 shares; Rose Baron, 10 shares; Lawrence Metz, 30 shares; J.W. Cobwb, 10 shares; J.H. Metz, 10 shares; A.C. Feldman, 10 shares; I.I. Smith, 5 shares; and Eva Heinl, 5 shares.

A. They appear to be the directors of the Company.

Q. They appear to be more or less qualifying shares. Now, the preferred stock bears interest at what rate?

A. Seven per cent.

Q. Well now, I want to take up with you the operations of the Company since it started at Louiseville - by year, if I may. For the year ending 31st of July, 1931, - would that be a complete year or is another A. Well, what are you looking at?

Q. I am looking at "Summary of operations."

A. That would be in error.

Q. The gross profit amounted, before depreciation, to $402,121.22? A. Yes.

MR. KELLOCK: Q. Is that the combined statement? A. No, that is for the full year, that is for 12 months year.

MR. McRUER: That is for the 12 month-year? A. Yes, beginning July 31st, 1931.

MR. KELLOCK: Q. And it is for the three companies? A. No, it is for Associated Textiles.

MR. McRUER: Q. I notice that on your statement here, which I better have filed now before I refer to it, there is a figure of capital employed $837,489.92, which is in excess of the $726,000 by about $111,000. That must have been profit on the operation of the first six months? A. That brings in money received from the City of Louiseville.

Q. Oh, I had forgotten about that.

THE COMMISSIONER: Would you call that part of their capital. That was a bonus given to them for going there? A. Yes.

Q. Given in a lump sum? A. Apparently paid it over two years.

MR. McRUER: It was to be paid, your lordship will recollect that a number of citizens signed an agreement that they jointly and severally would be liable for $60,000, to be paid in certain percentages, $20,000, when they employed so many and to pay so much more when they employed so many more and finally was all paid.

A. No, that is for the full year, that is for 12 months ending July 31st, 1931.

MR. MORDEN: That is for the 12 month-year? A. Yes, year.

MR. MORDEN: Q. I notice that on your statement there is a figure of capital employed $257,485,31, which is in excess of the $258,000 by about $11,000. That must have been profit on the operation of the first six months? A. That brings in money received from the City of Louiseville.

Q. Oh, I had forgotten about that.

THE COMMISSIONER: Would you call that part of the capital. That was a bonus given to them for going

Q. Given in a lump sum? A. Apparently paid it over two years.

MR. MORDEN: It was to be paid, your lordship will that they jointly and severally would be liable for

THE COMMISSIONER: Q. You classify that as working capital? A. Yes.

THE COMMISSIONER: That is added to the $726,000 for the first year. That does not make up the whole amount.

MR. McRUER: Not quite.

THE WITNESS: That is the capital at the end of the year.

THE COMMISSIONER: You see, they did not have the whole $60,000 that first year.

THE WITNESS: This is the end of the second year. They had a surplus from operations of that year of $51,438.12.

Q. The first year was only a partial year? A. Yes. Accumulated profits ---

MR. McRUER: Q. Well, can you take that as the figure for capital employed as of that date, if it is the accumulated profits that are built up as a result of year's operations? A. It is not absolutely correct, no, but it is almost impossible to get the correct figure because it would have to be an average figure.

Q. Yes, the figure would be accumulating all the time as the profits came in? A. Yes. So that you either take the capital at the beginning of the period or ---

THE COMMISSIONER: I think you want to show us how this capital was made up. You told us in the case of Courtaulds how it was made up. Here

THE COMMISSIONER: Q. You classify that as working capital? A. Yes.

THE COMMISSIONER: That is added to the $750,000 for the first year. That doesn't make up the whole amount.

MR. MONROE: Not quite.

THE WITNESS: That is the capital at the end of the year.

THE COMMISSIONER: You see, they did not have the whole $500,000 that first year.

THE WITNESS: This is the end of the second year. They had a surplus from operations of that year of $61,429.12.

. The first year was only a partial year? A. Yes. Accumulated profits ---

MR. MONROE: Q. Well, can you take that as the figure for capital employed as of that date, if it is the accumulated profits that are built up as a result of year's operations? A. It is not absolutely correct, no, but it is almost impossible to get the correct figure because it would have to be an average figure.

Q. Yes, the figure would be accumulating all the time as the profits came in? A. Yes. So that you either take the capital at the beginning of the period or ---

apparently are other factors coming in? A. Consists of preferred stock of $500,000, common stock of $226,000, donated surplus, what we term it, from Louiseville, the bonus of $60,000.

Q. That was all paid in those first two & years and a half, is that right?

MR. McRUER: I am not sure whether it was all paid.

THE WITNESS: But if they charge it up to them they set it up on their books as an asset as though they had it, so we treat it as an asset in toto.

Q. The whole $60,000 goes into this? A. Yes.

Q. I see in the Annual statement Exhibit 232, for the year ending 31st July, 1931, there is this paragraph:

> "On May 6th, 1929, the Company entered into an agfeement with certain citizens of the Town of Louiseville in the Province of Quebec, whereby in consideration of a donation of $60,000 the Company agreed to construct and operate in the Town of Louiseville a plant of a total minimum value of $300,000 for the manufacturing and finishing of silk cloth. Accordingly a building was erected and equipped and operations were commenced on February 1st, 1930.
>
> "Mr. Philip Fainer severed all connections with the Company." Etc.

THE COMMISSIONER: We have it now - we have preferred stock and common shares and this grant and what else?

A. And earned surplus of $51,438.12.

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apparently are other factors coming in? A. Certainly,
of preferred stock of $500,000, common stock of
$250,000, donated surplus, what we term it, from Louisa-
ville, the bonus of $50,000.

Q. That was all paid in those first two & years and
a half, is that right?

MR. CHUTE: I am not sure whether it was all paid.

THE CHAIRMAN: But if they charge it up to them
they set it up on their books as an asset as though they
had it, so we treat it as an asset in toto.

Q. The whole $50,000 goes into this? A. Yes.

The year ending 31st July, 1913, there is this paragraph:

"On May 9th, 1910, the Company entered
into an agreement with certain citizens of the
Town of Louisaville in the Province of Quebec,
whereby in consideration of a donation of $50,000
the Company agreed to construct and operate in
the Town of Louisaville a plant of a total minimum
value of $300,000 for the manufacturing and finish-
ing of silk cloth. Accordingly a building was
erected and equipped and operations were commenced
[illegible]

with the Company." Etc.

MR. [illegible]: We have it now - we have preferred
stock and common shares and this grant and what else?

Q. That is earned during that same period? A. Up to the end of that period and a small item of $51.80 which represent advances to affiliated companies.

MR. McRUER: Q. Well then, the profits at the end of 1931, July, 1931, gross profits before depreciation amounted to $402,121.22? A. Yes, sir.

Q. And that was 26.36 per cent. on sales? A. 36.35 is not it?

Q. After depreciation it amounted to? A. 22.65.

Q. The net profit before income taxes on sales 9.39, and the net profit after income taxes on capital employed, amounted to 15.34%? A. Yes, sir.

THE COMMISSIONER: Q. Where do you take out your selling cost there, after depreciation? A. After depreciation - you mean gross profits after depreciation and the net profits.

MR. KELLOCK: You changed your basis from sales to capital employed in the last line?

THE WITNESS: Yes.

Q. Those percentages are not comparable? A. No.

THE COMMISSIONER: They are not on the same thing.

MR. McRUER: No, they are not on the same thing.

MR. KELLOCK: They do not show a net profit after income tax at all on sales? A. Don't show percentage, no. They treated the Income tax as being appropriation of profits earned.

MR. KELLOCK: Expense, though.

THE WITNESS: It is not an expense at all, of

Q. That is earned during that same period? A. Up to the end of that period and a small item of $31.80 which represent advances to affiliated companies.

MR. McGUIRE: Q. Well then, the profits at the end of 1931, July, 1931, gross profits before depreciation amounted to $40%,181.22? A. Yes, sir.

Q. And that was 26.36 per cent. on sales?

A. 36.35 is not it?

Q. After depreciation it amounted to? A. 22.65.

Q. The net profit before income taxes on sales 9.39, and the net profit after income taxes on capital employed, amounted to 15.84%? A. Yes, sir.

THE COMMISSIONER: Q. Where do you take out your selling cost there, after depreciation? A. After depreciation - You mean gross profits after depreciati and the net profits.

MR. KELLOCK: You changed your basis from sales to capital employed in the last line?

THE [illegible]: Yes.

Q. Those percentages are not comparable? A. No.

THE COMMISSIONER: They are not on the same thing.

Mr. [illegible]: No, they are not on the same thing.

MR. KELLOCK: They do not show a net profit after income tax at all on sales? A. Don't show percentage, no. They treated the income tax as being [illegible] at profits basis.

[illegible]: Expense, I mean.

operating business. It is a division of your profits with the Government.

Q. All right, it is the same thing? A. Not the same thing at all according to the Income Tax Act. It is a reduction of the surplus available for distribution to the shareholders.

Q. Now, looking at Exhibit 238, which is an exhibit that was filed at Louiseville during the Examination of Mr. Marx or Mr. Lawlor, I see that the total wages paid for the 12 months ending March 31st, 1931, amounted to $223,116.36. You are going to give us a statement later on, are you not, that will be the same as Courtaulds' statement that will supplement this to show the percentage of wages to sales? A. Yes, in respect to these companies that we have the returns.

Q. In respect to the companies we are dealing with? A. Yes.

Q. Now, the gross profit after depreciation in this year apparently was $345,731.? A. That is right.

Q. As against wages paid of $223,116? A. What period is that?

Q. That is, for the 12 months ending 31st July, 1931? A. They would have something in there that is classified under some other heading. Under heading of wages show $220,466. There are probably some other wages under the heading of expense, wages that do not appear as wages.

Q. My figure is probably a little more inclusive

operating business. It is a division of your profits with the Government.

Q. All right, it is the same thing? A. Not the same thing at all according to the Income Tax Act. It is a remission of the surplus available for distribution to the shareholders.

Q. Now, looking at Exhibit 528, which is an exhibit that was filed at Joutseville covering the Examination of Mr. [illegible] Dealey, I see that the [illegible] paid for the 12 months ending March 31st, 1931, amount to $885,116.36. You are going to give us a statement later on, are you not, that will be the same as Counsellor's statement that will supplement this to show the percentage of wages to sales? A. Yes, in respect to those computation that we have the returns. Q. In respect to the companies we are dealing with? A. Yes.

Q. Now, the gross profit after depreciation in this year apparently was $345,751.? A. That is right.

Q. As against wages paid of $885,116? A. What

Q. That is, for the 12 months ending 31st July, 1931? A. They would have something in there that is classified under some other heading. Under [illegible] these many [illegible]. There are [illegible] some others under the heading of expense, [illegible] that is not [illegible].

than the figure they put in the returns classified as wages? A. Yes, sir.

Q. So that I am doing no unfairness to the Company if from their own returns I take the higher figure? A. No.

--

Adjourned at 12.30 P.M. to resume at 2.15 P.M.

-- The Commission resumed at 2:15 P.M.

ERNEST J. HOWSON, Examination resumed.

MR. McRUER: I don't believe I have yet filed, my lord, the Exhibit that has reference to the Associated Textiles that has been prepared by Mr. Howson.

THE COMMISSIONER: Just a moment, Associated Textiles, yes, what is it you want ?

MR. McRUER: I was making certain references to it.

THE COMMISSIONER: All you have given me so far is the questionnaire, the answers.

MR. McRUER: Yes, my lord; the next is a summary dealing with certain individual companies in the real silk division of the textile industry.

THE COMMISSIONER: What relation has that to the Associated Textiles ?

MR. McRUER: Well, it is the first one that is dealt with in that exhibit, my lord.

THE COMMISSIONER: I see.

MR. Mc RUER: There are a number of them in it and it is the first one.

THE COMMISSIONER: You will be referring to the same exhibit in connection with other companies too ?

MR. McRUER: Yes, my lord.

THE COMMISSIONER: What is it again ?

MR. McRUER: A summary of certain individual companies in real silk division of the textile industry, financial summaries it is called.

THE COMMISSIONER: You say the real silk division

-- The Commission resumed at 2:15 P.M.

M. MOFFATT: I don't believe I have yet filed, my Lord, the Exhibit that has reference to the Associated Textiles that has been prepared by Mr. Howson.

THE COMMISSIONER: Yes, Mr. Moffatt, certainly that is filed.

MR. MOFFATT: I was making certain references to it.

THE COMMISSIONER: All you have given me so far is the questionnaire, the answers.

MR. MOFFATT: Yes, my Lord; the next is a summary dealing with certain individual companies in the real silk division of the textile industry.

THE COMMISSIONER: What relation has that to the Associated Textiles ?

MR. MOFFATT: Well, it is the first one that is dealt with in that exhibit, my Lord.

THE COMMISSIONER: I see.

MR. MOFFATT: There are a number of them in it and it is the first one.

THE COMMISSIONER: You will be referring to the same exhibit in connection with other companies too ?

MR. CAHAN: Yes, my Lord.

THE COMMISSIONER: What is it again ?

MR. MOFFATT: A summary of certain individual companies in real silk division of the textile industry, financial information it is called.

of the textile industry ?

MR. McRUER: Yes, my lord.

THE COMMISSIONER: All right, 907.

EXHIBIT No. 907: Financial summaries of certain companies in the real silk division of the textile industry.

MR.McRUER: Of course, for the purpose of our record, although we call it the real silk division I think practically all these companies weave rayon fabrics as well as real silk. There is no possible way of dividing them.

MR. KELLOCK: Belding-Corticelli doesn't.

MR. McRUER: Belding-Corticelli doesn't, well, I am glad to have that. Then, this is 900 --

THE COMMISSIONER: 907.

MR.McRUER: Now, I had just been making a comparison , Mr. Howson, between some figures shown on Exhibit 238 and figures shown in Exhibit 907 so far as it relates to the Associated Textiles of Canada, Limited, and I had dealt with the gross profits before depreciation, or after depreciation, rather, amounting to $345,731. and compared it with the grand total of wages amounting to $233,116. shown on Exhibit 238 for the year 1931, and the gross profit before depreciation amounted to $402,121. as compared with $223,000. Now, take the year 1932. The gross profit --

BY THE COMMISSIONER: Q. Pardon me a moment, what page is this ? A. On the first page, sir.

MR. McRUER: On the first page.

THE COMMISSIONER: Yes, all right, go on.

MR. MORTON: Of course, for the purpose of our record, although we call it the rayon silk division I think practically all these companies weave rayon fabrics as well as real silk. There is no possible way of dividing them.

I am glad to have that. Then, this is C.C.F. --

MR. MORTON: Now, I had just been making a comparison, Mr. Howson, between some figures shown on Exhibit 238 and figures shown in Exhibit 807 so far as it relates to the Associated Textiles of Canada, Limited, and I had dealt with the gross profits before depreciation, or after depreciation, rather, amounting to $345,781. and compared it with the grand total of gross amounting to $238,116. shown on Exhibit 238 for the year 1931, and the gross profit before depreciation amounted to $406,181. as compared with $238,000. Now, take the year 1932. The gross profit --

MR. MORTON: On the first page.

THE COMMISSIONER: Yes, all right, go on.

BY MR. McRUER: Q. In the year 1932 the gross profit before depreciation amounted to $992 --

A. $492.

Q. $492,438. The grand total of wages wshown in exhibit 238 amounted to $331,260., and for my purposes I think I shall deal with gross profits before depreciation because that is a figure that goes to other people other than wage earners whether it be the investors of the selling staff or who it is. Now, in 1933 the gross profit before depreciation was $529,769. as against a grand total of wages amounting to $446,898.

THE COMMISSIONER: The wages are on the other exhibit ?

MR . Mc_RUER: They are on exhibit 238, my lord. In 1933, I beg your pardon, the wages should be $399,261.08 for 1933.

THE COMMISSIONER: What is the object of reading those figures there side by side, the gross profit and the wages ?

MR. McRUER: The wages go to wage-earners. My point is this, the share of the earnings in the industry, what is divided among wage-earners and what goes to its operating --

MR. KELLOCK: Not gross profits, surely.

THE WITNESS: Selling expense and administrative charges,come out of that.

MR. KELLOCK: Overhead.

MR. McRUER: That all goes to a different class of people than the wage-earners.

MR. KELLOCK: You have got to pay it out just the

BY MR. MONTAGUE: Q. In the year 1928 the gross profit before depreciation amounted to $998 --

A. $998.

Q. $429,438. The grand total of wages shown in exhibit 288 amounted to $881,899., and for my purpose I think I shall deal with gross profits before depreciation because that is a figure that goes to other people other than wage earners whether it be the investors of the selling staff or who it is. Now, in 1928 the gross profit before depreciation was $826,763. as against a grand total of wages amounting to $446,898.

THE COMMISSIONER: The wages are on the white exhibit ?

MR. MCKEOWN: They are on exhibit 288, my Lord. In 1928, I beg your pardon, the wages should be $399,861.08 for 1928.

THE COMMISSIONER: What is the object of reading those figures there side by side, the gross profit and the wages ?

MR. MONTAGUE: The wages go to wage-earners. My point is this, the share of the earnings in the industry, what is divided among wage-earners and what goes to its operating --

MR. KELLOCK: Not gross profits, surely.

MR. MONTAGUE: That all goes to a different class

same.

MR. McRUER: Well, they pay out their dividends.

THE COMMISSIONER: Are you saying the gross profits here include wages paid ?

MR.McRUER: No, my lord.

THE COMMISSIONER: Then, what is the connection ?

THE WITNESS: They are after wages paid.

MR. McRUER: It is comparative, my lord.

THE COMMISSIONER: It would have to be. I say what are you reading the two of them together for ?

MR.McRUER: The wages, for instance, in 1933 amounted to $399,000 dollars.

THE COMMISSIONER: Yes.

MR.McRUER: The gross profits amounted to $434,000 before depreciation.

THE COMMISSIONER: Yes, after paying these wages and other things you come down to gross profits of $529,000., is that right ?

MR. McRUER: 1933, yes, my lord.

THE COMMISSIONER: Yes, $529,000.

MR.McRUER: $529,000; that was about $130,000. more than the total wage bill.

MR. KELLOCK: What does that mean ?

THE COMMISSIONER: You say that is the gross profit before depreciation. Unless I know now what came out of these gross profits I do not get the comparison.

MR.McRUER: I am not interested in depreciation at all, because that goes back to the owners of the industry.

MR. KELLOCK: How can depreciation go back to the owners of the industry ?

THE CHAIRMAN: Are you saying the gross pro-

fits here include wages paid ?

A. Yes, my lord.

THE CHAIRMAN: Then, what is the connection ?

THE WITNESS: They are after wages paid.

MR. MORUM: It is comparative, my lord.

THE CHAIRMAN: It would have to be. I say what are you reading the two of them together for ?

A. MORUM: The wages, for instance, in 1932 amounted to £ [illegible].

THE CHAIRMAN: Yes.

MR. MORUM: The gross profits amounted to [illegible].

THE CHAIRMAN: Then, other [illegible] other things you come down to gross profits of £250,000, is that right ?

MR. MORUM: 1932, yes, my lord.

MR. MORUM: £250,000; that was about £130,000. more [illegible].

MR. CHAIRMAN: What does that mean ?

THE COMMISSIONER: You say that is the gross profit before depreciation. Unless I know now what comes out of these gross profits I do not get the comparison.

MR. MORUM: I am not interested in depreciation at all, because that goes to pay arrears of the [illegible].

MR.McRUER: Because that is part of their investment they are getting back.

MR. KELLOCK: If they take it out --

MR.McRUER: They get it back. They are being paid back for what they put in and at the rate depreciation is taken they are being paid back about twice as fast as necessary, I would suggest, but certainly if I invest $100,000. and depreciate it $10,000. a year, I am getting my $10,000. a year back out of the profits.

MR. KELLOCK: I always understood depreciation was a loss each year.

MR. McRUER: Well, it isn't.

THE COMMISSIONER: Insofar as you can charge it to your operations it is a loss out of operations, I suppose, but then you put it back into your capital, don't you ?

MR. KELLOCK: If you take it out of profits.

MR. McRUER: You restore it to your capital.

THE COMMISSIONER: You have gross profits before depreciation and gross profits after depreciation. Now then, go on and let me see what your point is about wages, Mr. McRuer.

MR.McRUER: One of the things that is put forward in support of high protection is the advantages that the workman will get. In this particular year, for instance, the workmen got $399,000. as against $452,000. that went to others even after depreciation, or before depreciation $529,000. Now, it is true you can deduct selling expenses as that goes -- is

MR. MONROE: Because that is part of their investment they are getting back.

MR. KNELOCK: If they take it out --

MR. MONROE: They put it back. They are being paid back for what they put in and at the rate depreciation is taken they are being paid back about twice as fast as necessary. I would suggest, but certainly if I invest $100,000. and depreciate it $10,000. a year, I am getting my $10,000. a year back out of the profits.

MR. KNELOCK: I always understood depreciation was a loss each year.

MR. MONROE: Well, it isn't.

THE COMMISSIONER: Inasfar as you can charge it to your operations it is a loss out of operations, I suppose, but when you put it back into your capital, don't you ?

MR. KNELOCK: If you take it out of profits.

MR. MONROE: You restore it to your capital.

THE COMMISSIONER: You have gross profits before depreciation and gross profits after depreciation. Now then, go on and let me see what your point is [illegible].

MR. MONROE: One of the things that is put forward in support of high protection is the advantages that the workman will get. In this particular year, for instance, the workmen got $399,000. as against

distributed among others but we can compare another figure , the net profits, for instance $197,000.

THE COMMISSIONER: That is after income taxes are paid ?

MR. McRUER: Yes, or before income taxes , $228,000. as against wages of $399,000. I think as we go along we will find this company was certainly making profits away out of proportion to the amount of wages they paid.

MR. KELLOCK: I can understand a comparison between wages and net profits but not with gross profits.

MR.McRUER: Well, I don't agree with you on de - preciation and I don't intend to be fooled by that either. You can commit a lot of sins in the name of depreciation, both on inventory and buildings and plant and everything else.

MR. KELLOCK: I hope you don't mean you are shutting your eyes when you say you don't intend to be fooled by it.

MR.McRUER: I am not shutting my eyes. I am not shutting them as long as you folks are around.

THE COMMISSIONER: If you each keep one of my eyes open all right.

MR. KELLOCK: I will try, my lord.

BY MR. McRUER: Q. Well now, in the next year, 1934, the net profits amounted to $144,695. and the wages paid $446,000. A. That is after income tax.

Q. I mean the net profits before income tax, $183,750. as against $446,898. for wages. I wish I had the figure of gross profits less selling expenses

distributed among others but we can compare another figure, the net profits, for instance $137,000.

THE COMMISSIONER: That is after income taxes are paid ?

MR. MORROW: Yes, or before income taxes, $529,000. as against wages of $899,000. I think as we go along we will find this company was certainly making profits away out of proportion to the amount of wages they paid.

MR. KELLOCK: I can understand a comparison between wages and net profits but not with gross profits.

MR.MORROW: Well, I don't agree with you on de - preciation and I don't intend to be fooled by that matter. You can commit a lot of sins in the name of depreciation, both on inventory and buildings and plant and everything else.

MR. KELLOCK: I hope you don't mean you are shutting your eyes when you say you don't intend to be

MR.MORROW: I am not shutting my eyes. I am not shutting them as long as you folks are around.

THE COMMISSIONER: If you each keep one of my eyes open all right.

BY MR. MORROW: Well now, in the next year, the net profits amounted to $144,868. and the wages paid $445,000. A. That is after income tax.

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and before depreciation; Can we get that ? A. Yes, it is just a matter of calculation.

THE COMMISSIONER: Less selling expenses ?

MR. McRUER: And before depreciation, before the company takes anything out for itself, just what it has got on the year's operations ? A. That would mean the net profit plus the depreciation.

Q. Plus the depreciation?

MR. KELLOCK: Presumably the depreciation, my lord, is charged off because the machinery is worn out. The company or anybody else does not get it back because, presumably, new machinery has got to be bought.

MR. McRUER: That is pure fiction in the study of these things because we find they go along and they depreciate them for a number of years and then take it into the next company, take it at that price and start all over again.

THE COMMISSIONER: It depends on how they use the fund. The depreciation is supposed to show the actual lesser value at the end of the year than at the end of the preceding year.

MR. KELLOCK: And to make provision for replacement.

THE COMMISSIONER: You take the money out of your profits and apply it to that purpose.

MR. KELLOCK: My friend says we get it back ? I do not get it back if I have to spend it.

THE COMMISSIONER: You do get it back. The replacement is there. Whatever deterioration there has been in your plant and machinery you take this money out of the profits to do that. You are taking it out

and before depreciation; can we get that ? A. Yes, it is just a matter of calculation.

MR. MCKEOWN: and before depreciation, before the company takes anything out for itself, just what it has got on the yards operations ? A. That would mean the net profit plus the depreciation.

Q. Plus the depreciation?

[illegible] ford, is charged off because the machinery is worn out the company or anybody else does not get it back be-

MR. McKEOWN: What is more fiction in the study of those things because we find they go along and they depreciate them for a number of years and then take it [illegible] the next company, take it at that price and start all over again.

THE COMMISSIONER: It depends on how they use the fund. The depreciation is supposed to show the normal lesser value at the end of the year than at the end of the preceding year.

MR. [illegible]: and to make provision for replacement.

[illegible]: Be here tomorrow any of your counsel will apply it be kept [illegible].

[illegible]: My friend says we get it back ? I do not put it back if I have to spend it.

[illegible]: We do get it back. The re-[illegible] it there. Ordinary depreciation there had

of profits, not out of new capital.

MR. KELLOCK: That is the only source we can get it from.

MR. McRUER: I am quite willing to take any statement that you prepare of what you have spent out of depreciation in replacement and look at it.

THE COMMISSIONER: If the depreciation is on a proper basis at the end of a term of years with the depreciation fund and what is left of your original assets you come to the same thing ? A. Your capital is intact.

Q. You are back where you started from.

MR. McRUER: What piques my curiosity --

THE COMMISSIONER: If you don't take enough depreciation your capital is not intact although it may appear to be. If you take too much, you are doing what you really have no right to do.

MR. McRUER: Of course, they can take any depreciation they like up to what the income tax Department will allow them.

THE COMMISSIONER: That is where the words I used "what you have no right to do" come in, but where they have to render an accounting then you can use the words whether they have a right to do this.

MR. McRUER: For the purpose of our study of the matter, the interesting part of it is they seemed to desire a lot more depreciation after the Income Tax Act came into effect than was necessary before.

MR. KELLOCK: Of course, there was no silk industry before the Income Tax Act.

of profits, not out of new capital.

MR. KENDOCK: That is the only source we can get it from.

MR. MORGAN: I am quite willing to take any statement that you prepare of what you have spent out of depreciation in replacement and look at it.

THE COMMISSIONER: If the depreciation is on a purchase at the end of a term of years with the depreciation fund and what is left of your original asset you come to the same thing? A. Your capital is intact.

Q. You are back where you started from.

MR. MORGAN: What pierces my obscurity --

THE COMMISSIONER: If you don't take enough depreciation your capital is not intact although it may appear to be. If you take too much, you are doing what you really have no right to do.

MR. MORGAN: Of course, they can take any depreciation they like so to what the Income Tax Department will allow them.

THE COMMISSIONER: That is where the words I used that you have no right to do come in, but where they have to render an account to them you can use the words whether they have a right to do this.

MR. MORGAN: For the purpose of our study of the matter, the interesting part of it is they seemed to desire a different depreciation after the Income Tax had come into existence than necessarily before.

MR. McRUER: I am dealing with the textile industry as a whole. They had not shown some things, because we have got to be careful not to be misled.

THE COMMISSIONER: That is so. Our object is to find actually what the real position of the companies is.

BY MR. McRUER: Q. Now, in 1935 -- In 1934 the amount of depreciation there would be the difference between these two figures; what is it, Mr. Howson ? A. Which, 1934 ?

Q. Yes, it is about $90,000.

MR. DAVIDSON: $85,867.

THE COMMISSIONER: About $86,000.

BY MR.McRUER: Q. And the net profit amounts to $144,000? A. $183,000.

Q. $183,000. That is $260,000 --

MR. McLLOCK: That is before income tax.

MR.McRUER: Yes, $260,000. ? A. $268,000.

Q. That is in 1934 as against a wage bill of $446,000. In 1935 the net profit amounted to $163,000.? A. And the depreciation --

MR. KELLOCK: Is that before Income Tax ?

MR. McRUER: Yes? A. Depreciation, $57,000.

Q. Making a total of ? A. $220,000.

Q. $220,000., and the total wages paid according to exhibit 238 were $506,875.

BY THE COMMISSIONER: Q. Is there anything to show in this case how this particular company arrived at these depreciation amounts each year ? A. Not in

the returns.

Q. They just give you a lump sum ? A. Yes. The difficulty in this whole inquiry in regard to depreciation is that there is no uniform basis at all.

BY MR.McRUER: Q. You find companies engaged in the same class of business depreciating at different rates ? A. Oh yes, and in many cases the depreciation isn't based on a rate at all as far as the financial records are concerned. They apparently wait till they determine how much profit they have and then set aside a certain amount for depreciation.

BY MR. KELLOCK: Q. I suppose you will confirm the particular instances when we get there ? A. I said in some cases.

BY THE COMMISSIONER: Q. Does it apply to this case here ? A. No, it does not apply to this case.

BY MR.McRUER: Q. Probably we could just get the amount of depreciation that was set aside each year ; have you got that handy where you can give it to us ? A. Yes. 1931, $56,389.76; 1932, $62,336.59.

Q. $62,000 ? A. $62,336.59; 1933, $76,924.06; 1934, $85,867.17; 1935, $57,804.77; Now, there is a case in point. I don't know just what is the basis of the depreciation, but I think their plant values were higher at the end of 1934. Their buildings, machinery and equipment were set out in their books at $1,180,000.--

BY THE COMMISSIONER: Q. How much at the end of 1934 ? A. At the end of 1934 their plant values and buildings were on the books at $1,180,000. and the

the returns.

Q. They just give you a lump sum ? A. Yes. The difficulty in this whole inquiry is bound to depreciation is that there is no uniform basis at all.

BY MR. MCDONALD: Q. You find companies engaged in the same class of business depreciating at different rates ? A. Oh yes, and in many cases the depreciation isn't based on a rate at all as far as the financial records are concerned. They apparently work till they determine how much profit they have and then set aside a certain amount for depreciation.

BY MR. BULLOCK: Q. I suppose you will confirm the particular instances when we got there ? A. I said in some cases.

BY MR. CHARLESWORTH: Q. Does it apply to this case here ? A. No, it does not apply to this case.

BY MR. MCDONALD: Q. Probably we could just get the amount of depreciation that was set aside each year ; have you got that handy where you can give it to us ?

A. Yes. 1951, $36,389.76; 1952, $36,389.59.

Q. $63,000 ? A. $63,396.59; 1953, $75,994.06; 1954, $86,907.17; 1955, $97,904.77; now, there is a case in point. I don't know just what is the basis of the depreciation, but I think their plant values were higher at the end of 1954. their buildings, machinery and equipment were set on

Q. How much is the end of

A. It was as of last year plant value

depreciation was $85,000. The following year they had increased to $1,307,000. yet the depreciation had dropped to $57,000. so , as I say, there is no uniformity in depreciation. That is one reason why in setting up these figures I showed the profits before depreciation.

BY MR.McRUER: Q. So that we find that not only is there lack of uniformity between mills engaged in the same industry but there is lack of uniformity in this mill, apparently? A. Yes.

Q. Well, I see in the Annual Report, Exhibit No. 235 the company set out the method of depreciation for the year 1934.

MR.KELLOCK: What are you reading from ?

MR.McRUER: Exhibit 235. "Depreciation has been calculated monthly at the following rates : Buildings, 2 1/2 %; Buildings - Frame 5%; Equipment, 10%; Equipment- Tinweighting 12 1/2%; Copper Rollers 15%; Automobile (old) 20%; Automobile (new) First year 25%; Furniture and Fixtures 10%." Then, we don't see anything about how they calculated it in 1935. Now, if we come to the next page -- no, the first page completes Associated Textiles. The total net profit for the five-years amounted to how much before Income Tax ?

THE COMMISSIONER: You say before Income Tax ?

MR.McRUER: Yes, my lord.

THE COMMISSIONER: You mean adding these items together ?

MR. Mc RUER: Yes, I just wondered if Mr.Howson

depreciation was $25,000. The following year they had increased to $1,827,000. Yet the depreciation had dropped to $27,000. So I say, there is no uniformity in depreciation. That is one reason why in setting up these figures I ignored the profits before depreciation.

BY MR. MORGAN: Q. So that we find not only is there lack of uniformity between mills engaged in the same industry but there is lack of uniformity in this mill; isn't that true?

A. Well, I see in the annual report, Exhibit No. 505 the company set out the method of depreciation [illegible].

MR. KELLOGG: What are you reading from?

calculated monthly at the following rates: Buildings, 3 1/2 %; Buildings - frame 5%; Equipment, 10%; Equipment- Tunnel Kiln 12 1/2%; Copper Boilers 17%; Automobile (old) 20%; Automobile (new) first year 25%; Furniture and Fixtures 10%." Then, we don't see anything about how they calculated it in 1925. Now, if we come to the next page -- no, the first page completes segregated tenths. The total net profit for the five-years amounted to how much before

Depre- ?

[illegible]

THE COMMISSIONER: You were adding those items

together ?

has that ? A. Oh yes, the total net profit from 1930 to 1935 was $683,849.26.

BY THE COMMISSIONER: Q. Pardon ? A. $683,849.26, less United Merchants and Manufacturers Supervision services $110,600.

Q. You are talking of net profits after paying the Income Tax are you ? A. Yes.

MR.McRUER: Before the Income Tax.

BY THE COMMISSIONER: Q. Mr. McRuer is asking you for before the Income Tax ? A. Well, I haven't got that. I haven't got the total of that figure.

BY MR.McRUER: Q. Give me the other one; how much is it ? A. $683,849.26 less $110,000. for supervision services, United Merchants and Manufacturers, leaving a net figure of $573,249.26.

BY THE COMMISSIONER: Q. That is in the last column, after Income taxes are paid , is it ? A. Yes.

Q. How much is that amount? A. $573,249.

BY MR.McRUER: Q. How much was paid to the parent company for supervision ? A. $110,600.

Q. $110,000.? A. $110,600.

Q. Well, the parent company --

THE COMMISSIONER: What do you refer to by the parent company ?

MR.McRUER: United Merchants in the United States; my lord. They own all the stock and have paid themselves a supervision charge of $110,000. so that United Merchants invested $726,000 in this Canadian enterprise in 1930, along about 1929 or 1930, and in supervision charges and net profits they have realized

CANADA

pose that ? A. Oh yes; the total net profit from

1880 to 1889 was $888,840.20.

BY THE COMMISSIONER: Q. Mendon ? A. $888,840.20.

Iowa United Motorboats and Manufacturers supervision

derived $111,000.

Q. You are talking of net profits after paying the

Income Tax are you ? A. Yes.

BY THE COMMISSIONER: Q. Mr. Mosher is asking

you for before the Income Tax ? A. Well, I haven't

BY MR.MORGUER: Q. Give me the other one; how much

leaving a net figure of $878,840.20.

BY THE COMMISSIONER: Q. That is in the last

column, after Income taxes are paid, is it ? A. Yes.

Q. How much is that amount? A. $878,240.

BY MR.MORGUER: Q. How much was paid to the parent

company for supervision ? A. $110,000.

$110,000.? A. $110,000.

Q. Well, the parent company --

THE COMMISSIONER: What do you refer to by the

parent company ?

MR.MORGUER: United Motorboats in the United States;

Lord. They own all the stock and have paid them-

selves a supervision charge of $110,000. so that Uni-

in 1880, along about 1880 or 1880, and in super-

$683,249. A. $683,849.

Q. $683,849.

THE COMMISSIONER How much did you say ?

MR Mc_RUER: $683,849.

THE COMMISSIONER: Yes, that is right.

BY MR.McRUER: How much have they set aside in depreciation ? A. A total of $368,659.

BY THE COMMISSIONER: Q. How much ? A. $368,659.

BY MR.McRUER: Q. $1,052,000? A. And in addition to that there is $60,000. donation from the citizens of Louiseville. Of course, that did not come --

Q. Out of the operations but the good citizens of Louiseville looked after $60,000.

MR. KELLOCK: You are going to add that ?

MR.McRUER: Oh yes, I think so. They certainly got the money.

MR. KELLOCK: I suppose that was due to the tariff too ?

MR.McRUER: Well, they did not take much chance on that. They got a joint and several contracts signed by these poor fellows. Well, this company, as I understand it, and I think it is on the record now, have not paid out any dividends ? A. No, no dividends.

Q. No dividends have been declared ; what profits there have been made have been left in the business here.

BY THE COMMISSIONER: Q. Left in the business in what form ? A. In increased equipment, their buildings, machinery, and equipment, for instance, have risen from $547,000. to $1,307,000. That is the main item.

Q. There is no investments ? A. No.

$685,940. A. $685,942.

Q. $685,940.

MR. CONNELSTONE: How much did you say ?

A. $685,940.

THE CHAIRMAN: Yes, that is right.

BY MR. CONNELSTONE: How much have they set aside in depreciation ? A. A total of $555,555.

BY MR. CONNELSTONE: Q. How much ? A. $520,000.

BY MR. MORTON: Q. $1,052,000? A. And in addition to that there is $80,000. Besides from the village of Louisville. Of course, that did not come --

Q. Out of the operations but the good citizens of Louisville looked after $60,000.

MR. MORTON: Oh yes, I think so. They certainly had the money.

MR. KELLOCK: I suppose that was due to the tariff too ?

MR. MORTON: Well, they did not take much chance on that. They got a joint and several covenants signed by those poor fellows. Well, this company, as I understand it, and I think it is on the record now, have not paid out any dividends ?

A. No, no dividends.

BY MR.McRUER: Q. Except -- A. Except in the subsidiary companies, in the Ultra-Chemical Company, which is a small one, $8,400.

BY THE COMMISSIONER: Q. Pardon me a moment, I asked you what became of their profits put back into the company; what are the figures you gave me on their equipment and -- A. Their plant and equipment has increased from $547,000. to $1,307,000., and they have to carry a larger working capital because of the greater volume of business they are doing, their inventory and accounts receivable.

BY MR.McRUER: Q. Their surplus stands at $573,000. The $110,000 -- A. Yes, $573,000.

Q. The $110,000. paid as a supervision charge, that was paid out to the parent company ? A. Yes, it was either paid out or placed to its credit. I think at one time they showed a liability. At any rate, it has been charged against operations.

Q. Then, we turn to the next company on this Exhibit 907, which is the Belding-Corticelli Company, and if youwwill just step down for a moment, Mr. Howson, I want to ask Mr. MacDougall a question. He gave us some evidence as to Belding-Corticelli.

W. P. MacDOUGALL, recalled.

EXAMINED BY MR. McRUER: Q. Mr. MacDougall, you have been sworn. Can you tell me how the inventory of the Belding-Corticelli Company has been valued for the purposes of your annual statement ? A. In just what sense, I wonder, do you mean that. It is taken

the subsidiary companies, in the Ultra-Chemical Company, which is a small one, $8,400.

BY THE COMMISSIONER: Q. Pardon me a moment, I asked you what became of their profits put back into the company; what are the figures you gave me on their equipment and --

A. Their plant and equipment has increased from $847,000. to $1,307,000.; and they have to carry a larger working capital because of the greater volume of business they are doing, their inventory and accounts receivable.

BY MR. MORROW: Q. Their surplus stood at $258,000. The $110,000 --

A. Yes, $573,000.

Q. The $110,000. paid as a supervision charge, that was paid out to the parent company ? A. Yes, it was either paid out or placed to its credit. I think at one time they showed a liability. At any rate it has been charged against operations.

Q. Then, we turn to the next company on this exhibit 907, which is the Holding-Securities Company, and if you will just step down for a moment, Mr. Howson, I want to ask Mr. MacDougall a question. He gave us some evidence as to Holding-Securities.

EXAMINED BY MR. MORROW: Q. Mr. MacDougall, you have

on our costs.

Q. I do not mean your costs . I think I asked a very plain question and that is on what basis the inventory is valued for the purpose of including in your annual statement ? A. Well, I cannot answer anything else but on the basis of our costs.

Q. The costs of the inventory ? A. The cost of the goods.

Q. Pardon ? A. The cost of the goods.

Q. Take on the basis of our costs; now, what do you mean by that ? A. The basis of the costs ?

Q. Yes ? A. Just as they are made up, as they are made up.

Q. Now, in the last annual statement of the 30th of November, 1935 there is the following statement: "Inventories of Manufactured and Partly Manufactured Products, Raw Materials, Supplies, etc. priced at cost or less, and not over replacement value,"--

THE COMMISSIONER: What is that ?

MR.McRUER: "Priced at cost or less, and not over replacement value, less Reserves, $382,060.53". Now, what is the basis of the making up of this inventory. It is stated there "priced at cost or less". I want to know -- A. Well, if there are any goods that are written down because of depreciation those goods are taken in at lower than the original production cost.

Q. Then, you don't make up your inventory at cost or market, whichever is the lower ? A. We make up our inventory on the same basis continuously.

on our books.

Q. I do not mean your books. I think I asked a very plain question and that is on what basis the inventory is valued for the purpose of including in your annual statement ? A. Well, I cannot answer anything else but on the basis of our books.

Q. The books of the inventory ? A. The cost of the goods.

Q. Price ? A. The cost of the goods.

Q. Basis on the basis of our books; now, what do you mean by that ? A. The basis of the books ?

Q. Yes ? A. Just as they are made up, as they are made up.

Q. Now, in the last annual statement of the 30th of November, 1928 there is the following statement: "Inventories of Manufactured and Partly Manufactured Products, Raw Materials, Supplies, etc. priced at Cost or less, and not over replacement value." --

THE COMMISSIONER: What is that ?

MR. [illegible]: "Priced at cost or less, and not over replacement value, less Reserves, $[illegible]."

Now, what is the basis of the making up of this inventory. It is stated there "priced at cost or less". I want to know -- A. Well, if there are any goods that are written down because of depreciation those goods are taken in at lower than the original production cost.

Q. Then, you don't make up your inventory at [illegible]

ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
TORONTO - CANADA

Q. That is not the question I asked. It may be the same basis continuously, but I say it isn't on the basis of cost or market whichever is the lower ?
A. It is continually on the same basis.

BY THE COMMISSIONER: Q. That is not the point though. We have been told here from time to time by various companies they value their inventory on cost or market value whichever is the lower. Now, is that the way you value it ? A. No, we don't. We never change our basis at all.

Q. What is your basis then ? What is your basis? A. Well, I don't know -- I could not say, we have got such a multiplicity of lines it is impossible to say just what the basis is.

BY MR.McRUER: Q. Mr. MacDougall, when you report to your directors you are able to tell your directors on what basis your inventory is made up; I venture to say that you are able to tell them what reserve you have in your inventory ? A. Yes.

Q. Now, you tell me just as frankly as you would tell your directors all about it ? A. I cannot tell you anything more, Mr. McRuer.

Q. Do you swear that is the kind of answer you would give to your directors ? A. It is taken on the same basis we have taken it for years.

Q. I am not asking that ? A. That basis is a different basis varying on the article that is being manufactured. In other words, the cost of a line is established for each particular item.

Q. Now, I want to read you what is stated in your

Q. That is not the question I asked. It may be the same basis consistently, but I say it isn't on the basis of cost or market whichever is the lower ?

A. It is consistently on the same basis.

BY THE COMMISSIONER: Q. That is not the point though. We have been told here from time to time by various companies they value their inventory on cost or market value whichever is the lower. Now, is that the way you value it ? A. No, we don't. We never change our basis at all.

Q. What is your basis then ? What is your basis ?

A. Well, I don't know -- I do'nt not say, we have got such a multiplicity of items it is impossible to say just what the basis is.

BY MR. McGONEGAL: Q. Mr. McGonegal, when you report to your directors you are able to tell your directors on what basis your inventory is made up; I venture to say that you are able to tell them what reserve you have in your inventory ? A. Yes.

Q. Now, you tell me just as frankly as you would tell your directors all about it ? A. I cannot tell you anything more, Mr. Counsel.

Q. Do you swear that is the kind of answer you would give to your directors ? A. It is based on the same basis we have taken it for years.

Q. I am not asking that ? A. It's

Annual Statement of 1934. It is put a little differently there. "Inventories of Manufactured and partly manufactured products, raw materials, supplies, etc. priced at cost or less, and not over replacement value, less reserves $301,989.14" ? A. There is no difference practically in those years, I don't think.

Q. Oh yes, there is. One said "priced at cost or less, and not over replacement".

BY THE COMMISSIONER: Q. That is not all though? A. Less reserves.

Q. There are two "lesses" there, cost or less and replacement less reserves ? A. Yes.

Q. What does all that mean; what is your basis? A. I cannot --

Q. Supposing you were explaining to your directors what would you tell them ? A. There is no explanation to it except on the basis, the same continued basis we have taken our inventory all over the years.

Q. Then, it is the same continued basis, and there is all the more reason why you should know what it is and tell me what it is. What is it ? A. I cannot explain it at all. I don't just follow the thing . We have one basis that we use continuously.

Q. What is the one basis you use continuously ? A. Well, the basis is according to what the lowest market price is.

Q. I thought you told me just now you did not use that as a basis , the lowest market price ? A. We have used the lowest market price. We never

Annual Statement of 1954. It is put a little differently there. "Inventories of manufactured and partly manufactured products are valued ... at cost or less, and not over replacement value."

Q. Do you, there is. One said "priced at cost or less, and not over replacement".

BY THE CHAIRMAN: Q. That is not all though?

A. Less reserves.

Q. There are two "lesses" there, cost or less and ... A. Yes.

Q. What does all that mean; what is your basis?

A. I can't --

Q. Before you started explaining to us, could you please tell me what would you tell them? A. There is no explanation to it except on this basis, the same continued basis we have taken our inventory all over the years.

Q. Then, it is the same continued basis, and there is all the same reason why we should keep that is not what it is. MAY BE IT? A. I cannot explain it at all. I don't just follow the thing. We have one basis that we use continuously.

Q. What is the one basis you use continuously?

A. Well, the basis is according to what the lowest market price is.

Q. I thought you told me just now you did not use that as a basis, that [illegible]

change it.

BY MR.McRUER: Q. The lowest market price of that year? A. No, sir, the lowest market price that has prevailed.

Q. That is, that you have ever known ? A. Yes .

Q. So you value your inventory at the lowest market price you have ever known ? A. Yes, sir.

Q. Well then, that is a very simple answer and there is not much difficulty about explaining that, was there ? A. Well, I did not follow --

Q. You could not understand the question, I take it? A. No, sir.

Q. Now that we have got to understanding it, it will be possible for you to work out each year and tell us how much the inventory would have been had it been valued at cost or market whichever is the lowest ? A. I presume that can be done.

Q. Can you tell me how much you have been able to appropriate to your inventory reserve year by year ? A. Yes sir, that is a matter that has been already gone into by the Income Tax Department each year as it has been made and the tax paid accordingly.

Q. Did you tell the Income Tax Department the basis on which you appropriated it ? A. The whole figures were there and how the inventory was valued. The depreciation reserve has been shown and the whole situation has been disclosed -- has been discussed with them from the time it was started .

Q. I see; when was it started ? A. I think it was -- I would not be positive, but I think it was 1915.

ROBT. BRYDIE
COMPANY - CANADA

BK vs.Norwich: Q. The lowest market price of the

A. No, sir, the lowest market price that has

[illegible].

Q. That is, that you have ever known ? A. Yes

Q. So you value your inventory at the lowest mar-

ket price you have ever known ? A. Yes, sir.

Q. Well then, that is a very simple answer and

there is not much difficulty about ascertaining that,

was there ? A. Well, I did not follow --

Q. You could not understand the question, I take

it? A. No, sir.

Q. Now that we have got to understanding it, it

will be possible for you to work out each year and

tell us how much the inventory would have been had it

been valued at cost or market whichever is the lowest

? I presume that can be done.

Q. Can you tell me how much you have been able t

A. Yes sir, that is a matter that has been already

gone into by the Income Tax Department each year as I

has been made and the tax paid accordingly.

Q. Did you tell the Income Tax Department the

on which you apportioned it ? A. The whole figure

were there and how the inventory was valued. The de-

preciation reserve has been shown and the whole amount

has been displayed — has been disclosed all the time

My time it was allowed.

Q. I may [illegible] ? A. I think it

Q. In the war years ? A. I think so.

Q. And the inventory reserve amounted to how much at the end of 1920 ? A I cannot tell you those figures off-hand..

Q. Are you swearing that the inventory reserve during the war years was shown to the taxing authorities ? A. Yes, sir.

Q. You are swearing to that ? A. Yes, sir.

Q. And allowed -- A. To the best of my knowledge.

Q. Well, that is a different thing ? A. Well, I know the thing has been reviewed. I know it has been gone over with the authorities and I know that Income Tax has been paid.

Q. I am getting at the Business profits Tax during the war years. You say you know it was gone over with the authorities ? A. We have a statement compiled in June, 1935, which goes right back to the original time of the inception of that reserve.

Q. You have ? A. Yes.

Q. From the department ? A. Yes.

Q. Probably you could let me have that ? A.Yes, sir.

Q. Well then, at any rate, the profits that are shown on your Profit and Loss statement -- A. Yes, sir.

Q. -- are not the true profits of the company? A. Yes, sir, absolutely.

Q. Well, they are not the profits that would be shown if the inventory had been valued at cost or

Q. In the war years ? A. I think so.

Q. And the inventory reserve amounted to how much at the end of 1920 ? A. I cannot tell you those figures off-hand..

Q. Are you swearing that the inventory reserve during the war years was shown to the taxing authorities ? A. Yes, sir.

Q. You are swearing to that ? A. Yes, sir.

Q. And allowed -- A. To the best of my knowledge.

Q. Well, that is a different thing ? A. Well, I know the thing has been reviewed. I know it has been gone over with the authorities and I know that Income Tax has been paid.

Q. I am getting at the Business profits Tax during the war years. You say you know it was gone over with the authorities ? A. We have a statement compiled in June, 1922, which goes right back to the original time of the inception of that reserve.

Q. You have ? A. Yes.

Q. Probably you could let me have that ? A. Yes, sir.

Q. Well then, at any rate, the profits that are shown on your Profit and Loss statement -- A. Yes, sir.

Q. -- are not the true profits of the company?

A. Yes, sir, absolutely.

Q. Well, they are not the profits that would be

market whichever is the lower ? A. They are practically the same.

Q. Oh no ? A. Yes.

Q. It is not the same ? A. Sure.

Q. If you take the lowest market price for all time and apply it against goods when they are high you will put away a secret profit ? A. The basis that is established whether the market goes up or down is the same all the time.

BY THE COMMISSIONER: Q. What is that ? A. The basis is the same all the time.

Q. I know the basis is the same, but that is not the point Mr. McRuer is getting at. Perhaps if you got some years, Mr. McRuer, and saw what this lowest figure is we might see how it works.

BY MR.McRUER: Q. Take in the year 1935 the statement of the Profit and Loss account is "PROFITS for the year ended 30th November, 1935, after deducting all Manufacturing, Selling and Administration Expenses, but before providing for Depreciation and Bond Interest $320,000., Interest on Investments, $11,800., Profit and Sale of Investments $20,000.--" I am reading round figures -- "DEDUCT Interest on Bonds, Provision for Depreciation, Provision for Income Tax, Provision for Advertising, Provision for Employees Insurance, Directors Remuneration, Executive Remuneration, Legal Fees, $250,000., Net Profit Transferred to Surplus $102,000." Now, I do not see anything in there --

THE COMMISSIONER: I cannot hear you with the

market whichever is the lower ? A. They are

Q. Oh no ? A. Yes.

Q. It is not the same ? A. Sure.

Q. If you take the lowest market price for all time and apply it against goods when they are sold you will put away a secret profit ? A. The basis that is established whether the market goes up or down is the same all the time.

BY THE CHAIRMAN: Q. What is that ? A. The basis is the same all the time.

Q. I know the basis is the same, but that is not the point Mr. Wagner is getting at. Perhaps if you get some person, Mr. Wagner, and see what this Income figure is we might see how it works.

BY MR.MORGAN: Q. Items in the year 1929 the statement of the Profit and Loss account is "AMOUNTS for the year ended 30th November, 1929, after deducting all Manufacturing, Selling and Administration Expenses but before providing for Depreciation and Bond Interest $330,000., Interest on Investments, $11,800., Profit and Sale of Investments $30,000.--" I am reading round figures -- "$330,000. Interest on Bonds, Provision for Advertising, Provision for Employees Insurance, Directors Remuneration, Executive Remuneration, Legal Fees, $300,000., Net Profit Transferred to Surplus $102,000." Now, I do not see anything in there --

talking behind.

BY MR. McRUER: Q. I do not see anything in there that informs us at all as to how much was taken out of profits of that year for inventory reserve ? A. I think there was a loss taken out.

Q. Well, you may have transferred it the other way? A. Which reduced our merchandise reserve.

Q. It does not tell us how much was transferred from inventory reserve to make up the profit of $320,000 .? A There wasn't anything transferred because the basis was identically the same, and that being the case, why we made a loss and that loss came out of there, came out of those profits.

Q. You used the same basis each time . Your profit is stated to be $320,000. here ? A. Yes,sir.

Q. All right; now, if you had valued on the basis of cost or market whichever is the lower what would that profit have shown ? A. I would not like to say off-hand whether there would be any difference or not.

Q. You could tell me ? A. I cannot tell you.

Q. The market was not at the lowest of all time last year, was it ? Maybe it was, I don't know ? A. No, I would not say it was at the lowest.

Q. You would not say it was at the lowest of all time. Take in the year 1934 --

THE COMMISSIONER: Pardon me a moment; what does that statement have reference to , the lowest market price over all time ? Does that refer to raw materials?

MR.McRUER: That is the basis on which the

Q. Yes, sir.

BY MR. MCGUIRE: A. I do not see anything in there that informs us at all as to how much was taken out of profits of that year for inventory reserve?

A. I think there was a loss taken out.

Q. Well, you may have transferred it the other way? A. Which reduced our merchandise reserve.

Q. It does not tell us how much was transferred from inventory reserve to make up the profit of $280,000.? A. There wasn't anything transferred because the basis was identically the same, and that being the case, why we made a loss and that loss came out of there, came out of those profits.

Q. You used the same basis each time. Your profit is stated to be $280,000. here? A. Yes, sir.

Q. All right; now, if you had valued on the basis of cost or market whichever is the lower what would that profit have shown? A. I would not like to say off-hand whether there would be any difference or not.

Q. You could tell me? A. I cannot tell you.

Q. The market was not at the lowest of all time last year, was it? Maybe it was, I don't know?

A. No, I would not say it was at the lowest.

Q. You would not say it was at the lowest of all time. Take in the year 1924 --

THE COMMISSIONER: Pardon me a moment; what does that statement have reference to, the Imperial Company over all time? Does that refer to raw materials

inventory is taken.

THE COMMISSIONER: Is that referring to raw materials or what ?

BY MR.McRUER: Q. It refers to everything ? A. It refers to -- yes sir, the whole thing would be taken in on the same basis.

Q. The whole thing? A. Raw material, process stock and finished goods.

Q. Those three things ? A. Yes, the whole thing on the same basis.

Q. Now, on your raw material --

BY THE COMMISSIONER: Q. When you say the lowest price for all time, how far back does that bring you ? A. Oh, for all time, I mean the lowest price within perhaps the last twenty years or so.

Q. About 1915 I suppose you mean ? A. Probably about that time.

BY MR.McRUER: Q. Mr. MacDougall , how do you take your raw material on that basis, the lowest market price for that raw material ? A. The lowest what?

Q. The lowest market price ? A. No, we take it on the lowest basis, the basis that we have established

BY THE COMMISSIONER: Q. Now, there is a further complication there. I understood the basis was the lowest market price for all time ? A. Yes sir, within the last number of years.

Q. Now then, you ask that question again, Mr. McRuer.

BY MR.McRUER: Q. In calculating --

THE COMMISSIONER: Take raw material.

BY MR.McRUER: Q. -- the price for raw material --

materials or what ?

Q. Is that referring to raw

A. It refers to -- Yes sir, the whole thing would be

taken in on the same basis.

Q. The whole thing? A. Raw material,

process stock and finished goods.

Q. Those three things ? A. Yes, the whole

thing on the same basis.

Q. Now, on your raw material --

BY THE CHAIRMAN: Q. When you say the lowest

price for all time, how far back does that bring you

A. Oh, for all time, I mean the lowest price within

perhaps the last twenty years or so.

Q. About 1915 I suppose you mean ? A. Probably

about that time.

BY Mr. MOULTON: Q. Mr. Kautzmyll , how do you

Q. The lowest market

A. No, on

Q. The lowest price for all time ?

A. Yes sir.

Q. Now then, you make that question clear, Mr.

Reuter.

BY MR. MOULTON: In ascertaining —

THE COMMISSIONER: What is the raw material ?

BY MR. McRUER: Q. What is the raw material ? A. Well, it is raw silk, artificial silk, mercerized cottons, carded cottons, combed cottons, combed peeled cottons, rubber threads. That about covers it.

Q. How do you arrive at the lowest market price for these raw materials for all time ? A. How do we arrive at it ?

Q. Yes ? A. If we arrived at a basis of say $1.30 for raw silk that would be the basis we would continue on continuously.

Q. You just take an arbitrary basis which you consider was the lowest ? A. No sir.

Q. Or did you go to find the lowest market price? A. What we actually paid.

Q. What you had actually paid ? A. Yes.

Q. Then, we take the lowest price you had actually paid for this raw material over a period of 20 years and take that as the basis for your inventory? A. That is our basis.

Q. Now, if you had taken it on the basis of cost or market over the period of the accounting year it would obviously make a difference in your profit and loss account ? A. I don't know just what the actual working out of it would be.

THE COMMISSIONER: Well, it would have to make a difference because on the one hand you have the lowest price of all the years, the lowest, not the average, the lowest price of all the years so any other price would have to be higher.

Q. Now, if you had taken it on the basis of cost or market over the period of the accounting year it would obviously make a difference in your profit and loss account ?

A. I don't know just what the actual working out of it would be.

THE COMMISSIONER: Well, it would have to make a difference because the two items (not those two items) are at all the times, the lowest, and you always take the lowest price of all the items at any time for these raw materials for all time ?

Q. How do you arrive at the lowest market price ?

A. Yes ? Q. If we arrived at a basis of say $1.30 for raw silk that would be the basis we would continue on continuously.

Q. You just take an arbitrary basis which you consider was the lowest ? A. No sir.

Q. Or did you go to find the lowest market price ?

A. What we actually paid.

Q. What you had actually paid ? A. Yes.

Q. Then, we take the lowest price you had actually paid for this raw material over a period of 30 years and take that as the basis for your inventory ?

A. That is our basis.

Robt. Bryce
Official Stenographer
Montreal

BY MR.McRUER: Q. Now, when this matter was reviewed by the Income Tax people was it disclosed to them that your basis was the lowest price that you had paid over the period of years ? A. I would not like to say that.

Q. You would not like to say ? A. No sir, I don't know that.

Q. You might let me have that sheet of 1935 when you say it was reviewed ? A. Yes sir.

Q. Did you deal with the Income Tax Department yourself ? A. No sir.

Q. Who dealt with them for you ? A. Our accountant.

Q. What is his name ? A. Stewart, and Mr. Pollock, our Secretary.

Q. Mr. Pollock ? A. Yes.

Q. Now, I want to look at these years, 1916, 1917 and 1918. Take the year 1916. The profits for the year ending the 30th of November, 1916 were $225,126.90. It is stated in this that "Inventories of manufactured and partly manufactured product, raw materials, supplies, etc. $722,452.63". Now, there is nothing in there to show they are valued at market — or to show how they are valued. Then we go to Exhibit No.-- or not exhibit No. we go to your annual statement of 1917. The profits are stated to be $232,999. and "Inventories of manufactured and partly manufactured product, raw materials, supplies, etc. less reserve $714,296.02". Now, there evidently was some reserve that was set up there ? A. I think it

BY MR. MOSS: Q. Now, when this matter was reviewed by the Income Tax people was it disclosed to them that your basis was the lowest price that you had paid over the period of years ? A. I would not like to say that.

Q. You would not like to say ? A. No sir, I don't know that.

Q. You might let me have that sheet of 1920 when you say it was reviewed ? A. Yes sir.

Q. Did you deal with the Income Tax Department counsel ? A. No sir.

Q. Who dealt with them for you ? A. Our accountant.

Q. What is his name ? A. Stewart, and Mr. Pollock, our secretary.

Q. Now, I want to look at these years, 1916, 1917 and 1918. Take the year 1916. The profits for the year ending the 30th of November, 1916 were $225,128.30. It is stated in this that "Inventories of manufactured and partly manufactured products, raw materials, supplies, etc., [illegible]. Now, there is nothing in there to show they are valued at market — or to show how they are valued. When we go to Exhibit No.-- or not exhibit No. we go to your annual statement of 1917. The profits are stated to be $[illegible], and "Inventories of manufactured and partly manufactured product, raw materials, supplies, etc.,

was just a matter of custom, or it was decided possibly at that time it should be shown that there was a reserve.

BY THE COMMISSIONER: Q. How does it read ? You say the profits are $232,000 and the inventory $714,000. What else is there ?

MR.McRUER: It reads: "Inventories of manufactured and partly manufactured products, raw materials, supplies, etc. less reserve".

THE COMMISSIONER: It says "less reserve" .

MR.McRUER: Less reserve, that is the first time that I see that it appears. In 1918, it reads, "Inventories of manufactured and partly manufactured product, raw materials, supplies, etc. less reserve, $930,950.47,and then the next one --

THE COMMISSIONER: Pardon me, what document are you reading from ?

MR.McRUER: I am reading from the annual statements of this company. They will be filed in a moment.

THE COMMISSIONER: When the words "less reserve" are contained there prominently it must have put all concerned on their inquiry.

MR. McRUER: Oh yes. What I want to know is whether the amount was shown in an account in your books ? A Yes sir.

Q. It was ? A. Yes, sir.

BY THE COMMISSIONER: Q. That is the amount of the reserve ? A. Yes, sir.

BY MR.McRUER: Q. Each year ? A. Yes, sir.

ROBT. BRYDIE
CANADA

was just a matter of custom, or it was decided years
ago at that time it should be shown that there was a
reserve.

BY THE COMMISSIONER: Q. How does it read ?
You say the profits are $282,000 and the inventory
$714,000. What else is there ?

MR.MOHUN: It reads: "Inventories of manufac-
tured and partly manufactured products, raw materials,
supplies, etc. Less reserve".

THE COMMISSIONER: It says "less reserve".

MR.MOHUN: Less reserve, that is the first time
that I see that it appears. In 1918, it reads,
"Inventories of manufactured and partly manufactured
products, raw materials, supplies, etc., less reserve,
$980,950.47,and then the next one --

THE COMMISSIONER: Pardon me, what documents are
you reading from ?

MR.MOHUN: I am reading from the annual state-
ments of this company. They will be filed in a mo-
ment.

The COMMISSIONER: When the words "less reserve"
are contained it are presumably it must have at all
commenced on that figure?

MR. MOHUN: Oh yes. What I want to know is
whether the amount was shown in an account in your
books ? A Yes sir.

Q. It was ? A. Yes, sir.

BY THE COMMISSIONER: Q. First is the amount of
that reserve ?

A. Yes, sir.

Q. As far as your company was concerned you made a calculation of what the inventory would be at cost or market whichever was the lowest and you made a calculation of what it would be at the lowest market price, or lowest price you had paid for it over a period of years and you counted the difference as reserve ?
A. The difference should have been the reserve.

Q. That is the way you calculated it, was it ?
A. I would think so, I don't know.

Q. I just wante to be sure of that ? A. I don't know that.

Q. What I want to get at is, is the amount that is shown on your books the whole reserve that is set aside ?
A. So far as I know it is.

THE COMMISSIONE : On the way you are calculating everything would be perfectly in order ?

MR.McRUER: Yes.

BY THE COMMISSIONER: Q. That is if you show cost or market value whichever is the lower, and then show the reserve, and then when you are asked to explain the reserve it means the difference between that and the lowest price of all time then everything is clear, but I am not so sure from the way the witness answers whether he knows ? A. I am not absolutely sure about that.

MR. McRUER : That is the point I am getting at.

THE COMMISSIONER: Perhaps Mr. Kellock can tell us who is the witness is.

MR. KELLOCK: The accountant, my lord, who should know was here. He received a wire that his wife was ill and he had to go back to Montreal. I

Q. As far as your company was concerned you made a calculation of what the inventory would be at cost or lowest price you had paid for it over a period of years and you computed the difference as reserve ?

A. The difference should have been the reserve.

Q. That is the way you calculated it, was it ?

A. I would think so, I don't know.

Q. I just wants to be sure of that ?

A. I don't know that.

Q. What I want to get at is, is the amount that is shown on your books the whole reserve that is set aside ?

A. So far as I know it is.

THE COMMISSIONER: On the way you are calculating everything would be perfectly in order ?

A. Yes.

BY THE COMMISSIONER: Q. That is if you show cost or market value whichever is the lower, and then show the reserve, and then when you are asked to explain the reserve it means the difference between that and the lowest price of all time then everything is clear, but I am not so sure from the way the witness answers whether he knows ? A. I am not absolutely sure about that.

MR. MORROW: That is the point I am getting at.

THE COMMISSIONER: Perhaps Mr. Pollock can tell

think the witness does not know, according to my instructions. Although Mr. MacDougall ought to know more about his business than I do my instructions are that we are on the wrong track here entirely.

MR. McRUER: Well, Mr. MacDougall has grown up in this business.

THE WITNESS: On the other hand you asked me a lot of questions that go years back where I had no control whatever over the business.

Page 12355 follows.

think the witness does not know, according to my
instructions. Although Mr. McConnell ought to know
more about his business than I do my instructions
that we are on the wrong track here entirely.

MR. MCCUSKER: Well, Mr. McConnell has drawn me
in this business.

THE LEARNED: On the other hand you saved me a
of questions that go years back where I had no conn
whatever over the business.

Page 13855 follows.

ROBT. BRYDIE
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Q. I will only go back to 1935.

A. It is a little difficult for me to answer.

Q. What I want to know is whether the amount that is shown on the books as reserve is the actual amount, if it was computed on the basis that we suggest, and that is the lowest market price, the lowest price you paid at all times -- that is one level -- cost or market on the other -- and if the portion in between will show on your books as reserve, then we are perfectly clear. But if it shows as something else and your inventory is calculated on the lower basis, then there is something to explain.

A. I think it is calculated on the basis you say, but I would not be positive.

Q. Mr. Shepherd is in Montreal, and we will ask him to call and see Mr. Pollock and see if he can find out.

BY MR. KELLOCK: Q. What did you personally have to do with the taking of your inventory?

A. I have nothing whatever to do with it.

Q. How long have you had nothing to do with taking your inventory?

A. I have had nothing to do with the inventory for a good many years.

Q. When the inventory is prepared it is prepared by somebody else entirely on the company's staff?

A. Yes.

Q. And when you see it, it is completed?

A. It is completed.

Q. And what have you got to do with it ?

A. I just simply look over it and find out whether

Q. I will only go back to 1929.

A. It is a little difficult for me to answer.

Q. What I want to know is whether the amount that is shown in the books as reserve is the actual amount, if it was computed on the basis that we suggest, and that is the lowest market price, the lowest price you paid at all times -- that is one level -- cost or market on the other -- and if the portion in between will show on your books as reserve, then we are perfectly clear. But if it shows as something else and your inventory is calculated on the lower basis, then there is something to explain. A. I think it is calculated on the basis you say, but I would not be positive.

Q. Mr. Shepherd is in Montreal, and we will ask him to call and see Mr. Pollock and see if he can find out.

BY MR. ARKLOCK: Q. What did you personally have to do with the taking of your inventory?

A. I have nothing whatever to do with it.

Q. How long have you had nothing to do with taking your inventory? A. I have had nothing to do with the inventory for a good many years.

Q. When the inventory is prepared it is prepared by exactly the same method as the company's staff? A. Yes.

Q. And when you see it, it is complete?

A. It is completed.

Q. And what have you got to do with it?

the goods on this inventory are saleable merchandise.

Q. Yes. Is not this the situation, Mr. MacDougall, that whoever it is that takes your inventory, he puts down in detail all the different kinds of goods you have got from the raw materials right through to the finished product you have ready for sale, and that is put down on the basis of current market value, current costs based on current market values?

THE COMMISSIONER: You say current costs based on current market values?

MR. KELLOCK: Yes.

THE COMMISSIONER: Is it current market value?

MR. KELLOCK: It is the standard cost based on current market value.

THE COMMISSIONER: But what do you mean by based on current market value?

MR. KELLOCK: It is the same thing. It is the current cost which is obtained by taking the current market value, my lord

THE COMMISSIONER: When you are dealing with inventory you are valuating.

MR. KELLOCK: Well, I will say current value. It is a question of current values.

BY MR. KELLOCK: Q. And when it comes to you, Mr. MacDougall, that work has all been done, and you look it over and see if you can sell these goods at these prices? A. That is the idea.

Q. Or at a profit over these prices?

A. Yes.

Q. And if you come to the conclusion from

the goods on this inventory are saleable merchandise.

A. Yes. Is not this the attention, Mr. Macdonell, that whoever it is that takes your inventory be puts down in detail all the different kinds of goods you have got from the raw materials right through to the finished product you have ready for sale, and that is put down on the basis of current market value, current costs based on current market values?

THE COMMISSIONER: You say current costs based on current market values?

A. Yes.

MR. MILLICAN: Is it current market value?

A. MILLICAN: It is the standard cost based on current market value.

THE COMMISSIONER: Standard cost based on current market value?

MR. MILLICAN: It is the same thing. It is the current cost which is obtained by taking the current

THE COMMISSIONER: When you are dealing with inventory you are valuating.

It is a question of current values.

BY MR. MILLICAN: Q. And when it comes to you, Mr. MacDonell, the work has all been done, and you look it over and see if you can sell these goods at these prices? A. That is the idea.

Q. Or get a profit over these prices?

A. Yes.

Q. And if you come to the conclusion from

your knowledge and experience of the whole business that you cannot sell at these prices, then you depreciate the items you cannot sell at a profit at these prices so as to take care of that situation.

A. Yes.

Q. And is not that the only deduction you make?

A. No, because we do not take our inventory on the actual current cost basis.

MR. KELLOCK: I beg pardon --

THE COMMISSIONER: Mr. MacDougall has told us quite positively that these things are valued, not as you put it there, tentatively according to the market value and then re-examined to see whether they can be sold on that basis at a profit, but he says point blank that they are taken at the lowest value prevailing for all time, that is to say twenty years. He cannot ride two horses, it is either one thing or the other.

THE WITNESS: There are slight variations in them from time to time.

MR. KELLOCK: I think we shall have to have Mr. Pollock here, because my instructions are different.

THE COMMISSIONER: The thing is to have the proper person here so that we can get right to the bottom without any further delay.

MR. E. J. HOWSON. EXAMINATION CONTINUED.

BY MR. McRUER: Q. Now, Mr. Howson, have you the answers to the questionnaire on Belding-Corticelli ?

A. Yes.

Q. This will be put in as an Exhibit. There are some supplementary explanatory statements that I will just attach to it.

your knowledge and experience of the whole business that you cannot sell at these prices, then you do- precis te the items you cannot sell at a profit at these prices so as to take care of that situation.

A. Yes.

Q. And is not that the only deduction you make?

A. No, because we do not take our inventory on the actual current cost basis.

MR. KELLOCK: I beg pardon --

THE COMMISSIONER: Mr. MacDougall has told us quite positively that these things are valued, not as you put it there, tentatively according to the market value and then re-examined to see whether they can be sold on that basis at a profit, but be ... zero point blank that they are taken at the lowest value pre- ... or the other.

THE WITNESS: There are slight verifications in them from time to time.

MR. KELLOCK: I think we shall have to have Mr. Pollock here, because my instructions are different. person here so that we can get right to the bottom without any further delay.

... the answers to the questionnaire on Selling- ...

... A. Yes.

Q. This will be put in as an Exhibit. There ... will just attach to it.

ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
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THE COMMISSIONER: This is question and answer? It will be Exhibit 908.

EXHIBIT 908: Questionnaire to Belding-Corticelli Company with supplementary explanatory statements.

MR. McRUER: The next Exhibit, my lord, will be the financial statements, the balance sheet and profit and loss statements of the Belding-Corticelli Company from 1911 to 1935 inclusive.

THE COMMISSIONER: That will be Exhibit 909.

EXHIBIT 909: Financial statements, balance sheet and profit and loss statements of Belding-Corticelli Company from 1911 to 1935 inclusive.

MR. McRUER: For the purposes of the record, in my examination of Mr. MacDougall I was referring to statements contained in Exhibit 909.

BY MR. McRUER: Q. We have had some history of the Belding-Corticelli Company, but it is a little incomplete yet. The company was incorporated when, Mr. Howson? A. April 7, 1911.

Q. Taking over the business of all the other companies? A. The Belding Paul Company Limited, the Corticelli Silk Company, the Cascade Narrow Fabric Company and the Oriental Silk Company Limited.

Q. Mr. MacDougall gave some evidence at page 7784 in reference to the original incorporation. Apparently these companies were bought up by the Dominion Bond Company and the Dominion Bond Company incorporated the Belding-Corticelli Company, sold the shares of the other companies to the Belding-Corticelli Company. Mr. MacDougall put it this way

THE COMMISSIONER: This is question and answer? It will be Exhibit 908.

EXHIBIT 908: Questionnaire re Belding-Corticelli with supplementary explanatory memoranda.

MR. McMURTRY: The next Exhibit, my Lord, will be the financial statements, the balance sheet and profit and loss statements of the Belding-Corticelli Company from 1911 to 1925 inclusive.

THE COMMISSIONER: That will be Exhibit 909.

EXHIBIT 909: Financial statements, balance sheet and profit and loss statements of Belding-Corticelli 1911 to 1925 inclusive.

MR. McMURTRY: For the purposes of the record, in my examination of Mr. Macdougall I was referring to statements contained in Exhibit 909.

BY MR. McMURTRY: Q. We have had some history of the Belding-Corticelli Company, but it is a little incomplete yet. The company was incorporated ... Mr. Bureau ... April 7, 1911.

Q. Taking over the business of all the other companies? A. The Belding Paul Company Limited, the Corticelli Silk Company, the Dresden Narrow Fabric Company and the Oriental Silk Company Limited.

Q. Mr. Macdougall puts some evidence at page 7764 in reference to the original incorporation. Apparently these companies were bought up by the Dominion Hand Company and the Dominion Hook Company incorporated the Belding-Corticelli Company, sold the shares of the other companies to the Belding-Corticelli Company. Mr. Macdougall put it this way

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at page 7784:

"A. Well, I don't know that I can give you that because the only thing we can possibly give you might be the Belding Paul Company. I doubt very much whether I could give you that. That matter was handled entirely by the Dominion Bond Company, who bought up the stock of these various companies and formed this new company."

I am trying to get from the Dominion Bond Company what information there was in reference to the original incorporation. Now, Mr. Howson, what was the capital set up of the company? A. There was a preferred stock issue of $840,600 on April 11, and on June 28, $12,500, and September 15, $1,300, a total of $854,400 in preferred stock. Common stock was issued on April 11, $743,200, June 28, $5,000, September 15, $1,300, making a total of $749,500. On April 11, 1925, 5 per cent convertible debentures were issued to the amount of $750,000, making a total of $2,353,900.

Q. The preferred stock bore interest at what rate? A. 7 per cent.

Q. Have there been any changes in the capital structure? A. Yes, bonds have been exchanged for preferred stock.

Q. When did that take place? A. From 1915 to 1915. On November 30, 1913, there was $5,548 of bonds issued for $5,800 of stock, and on May 1, 1915, $4,866.67 of bonds were exchanged for $5,100 of preferred stock, making a total of $10,900

at page 7764:

"A. Well, I don't know that I can give you that because the only thing we can possibly give you might be the Belding Paul Company. I doubt very much whether I could give you that. That matter was handled entirely by the Dominion Bond Company, who bought up the stock of these various companies and formed this new company."

I am trying to get from the Dominion Bond Company what information there was in reference to the original incorporation. Now, Mr. Howson, what was the capital set up of the company? A. There was a preferred stock issue of $640,600 on April 11, and on June 28, $12,500, and September 15, $1,500, a total of $654,600 in preferred stock. Common stock was issued on April 11, $746,500. June 28, $749,500. On April 11, 1928, 5 per cent convertible debentures were issued to the amount of $750,000, making a total of $2,853,900.

Q. The preferred stock bore interest at what

Q. Have there been any changes in the capital structure? A. Yes, bonds have been exchanged for preferred stock.

Q. When did that take place? A. From 1918 to 1919. On November 30, 1918, there was $3,348 of bonds issued for $3,800 of stock, and on May 1, 1919, $4,366.67 of bonds were exchanged for $5,100 of preferred stock, making a total of $10,930

and bringing to preferred shares to $865,300. Were these bonds sterling bonds, Mr. MacDougall?

MR. MacDOUGALL: Sterling.

BY MR. KELLOCK: Q. How would that increase the preferred? A. They surrendered the bonds and took preferred stock for it.

Q. The bonds? A. The convertible debentures.

BY MR. McRUER: Q. So that the capital outstanding now is $865,300 in preferred stock and $749,500 in common stock? A. Yes. All the rest of the debentures were redeemed between 1913 and 1935.

Q. Yes. How much was the total? A. $750,000 was the original issue.

Q. But there were some exchanges? A. $10,000 were exchanged, and $739,585 were redeemed.

Q. Is there anything to indicate when these debentures were redeemed? A. I think the financial statements would show the reduction in the amounts from year to year.

Q. At the end of 1934, $65,000 was outstanding? A. In debentures.

Q. And in 1933, $101,000; 1932, $137,000; 1931, $179,000; 1930, $220,000. So they have redeemed $220,000 of these debentures in the last five years? A. Yes, and in the last ten years $367,000.

Q. $367,000 in the last ten years? A. Yes.

Q. Now the preferred stock has paid 7 per cent throughout since 1911? There have been no changes in the rate? A. I think that is correct. The

and bringing to preferred shares to $965,500.

were those bonds sterling bonds, Mr. Mowbray?

BY MR. MOWBRAY: Q. How would that interest

the preferred? A. They surrendered the

bonds and took preferred stock for it.

Q. The bonds? A. The convertible

debentures.

BY MR. MORDEN: Q. So that the capital out-

standing now is $865,500 in preferred stock and

$748,500 in common stock? A. Yes. All the

rest of the debentures were redeemed between 1913

and 1920.

Q. Yes. How much was the total?

A. $750,000 was the original issue.

were exchanged, and $729,500 were redeemed.

Q. Is there anything to indicate when these

debentures were redeemed? A. I think the

financial statement would show the reduction in

the amounts from year to year.

Q. At the end of 1924, $65,000 was outstanding?

A. In debentures.

Q. And in 1923, $101,000: 1922, $197,000;

1921, $179,000; 1920, $220,000. So they have re-

deemed $220,000 of these debentures in the last five

years? A. Yes, and in the last ten years

$567,000.

Q. $567,000 in the last ten years? A. Yes.

Now the preferred stock has paid 7 per cent

the rate? A. I think that is correct. The

ROBT. BRYDIE
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first dividend was paid November 30, 1911, for seven months.

Q. Oh yes. Now, just to put it on the record, Exhibit 909 shows the preferred dividends in 1911 amounted to $31,965.50. You have not by any chance tabulated these preferred dividends? A. No. We have the total amount paid on preferred stock from 1911 to 1935. It was $1,483,840.75.

Q. How much on the common? A. $524,650.

Q. Are you able to tell us what portion of this stock was issued for cash as far as the records go? A. The consideration set up on the books for the issue of the stock included a good will item, trade marks etc., amounting to $948,323.56.

Q. Yes, that is more than the whole common stock? A. Yes. In other words the total securities issued were $2,353,900, and the consideration received by the company was that amount in assets and cash less $948,322.56 for good will, trade marks, etc., and $150,000 for discount on the debentures. The rest of the assets were made up of $238,094 in cash, and the balance in physical assets taken over for shares. I think they carried the Oriental Silk Company shares as an asset.

Q. So this debenture issue of $750,000 that was sold was turned over to the Dominion Bond Company in return for -- A. I cannot tell you that from the returns. I guess that is right; the Dominion Bond Company is indicated here as having been the receiver of the convertible debentures.

Q. Oh yes. Now, just to put it on the record, Exhibit 309 shows the preferred dividends in 1911 amounted to $21,965.50. You have not by any change tabulated these preferred dividends? A. No. We have the total amount paid on preferred stock from 1911 to 1920. It was $1,488,810.75.

Q. How much on the common? A. $256,550.

Q. Are you able to tell us what portion of this stock was issued for cash so far as the records go? A. The consideration set up on the books for the items of the stock included a good will item, trade marks etc., amounting to $949,826.56.

Q. Yes, that is more than the whole common stock? A. Yes. In other words the total securities issued were $2,438,300, and the consideration received by the company was that amount in assets and cash less $948,826.56 for good will, trade marks, etc., and $150,000 for discount on the debentures. The rest of the assets were made up of $958,094 in cash, and the balance in physical assets taken over for shares. I think they carried the original bill Company shares as an asset.

[illegible] in return for -- A. I cannot tell you that from the return. I guess that is right; but the Dominion Steel Company is indicated here as having been the receiver of the convertible debentures.

Q. Well, if it was turned over to them as part of the purchase price of the assets, I am wondering why the discount of $150,000. A. They must have turned the debentures over at a discount.

Q. Yes, of course. So the capital outstanding was $1,100,000. That is good will and discount?
A. Yes, at that time.

Q. At that time. That good will has partly been written off. A. Partly so. In the period from 1911 to 1935 they have written off $448,350.56 in good will. Mr. Davidson tells me that the balace of the good will was written off to transfer from sinking fund reserve.

Q. I thought it was all written off. The total capital outstanding you told me was how much?
A. Today?

Q. In 1911. A. $2,364,800.

Q. And of that $750,000 was in bonds?
A. Yes.

Q. Leaving a share capital of $1,514,800?
A. $1,614,800.

Q. That is right, $1,614,800, and of that $948,000 is represented by good will?
A. $150,000 discount.

Q. I have taken the bonds out altogether, so we cannot count it twice. $948,235 is represented by good will, leaving a balance of what?
A. $666,000. Would you just go over those figures again.

Q. Capital, $2,364,800. A. That includes bonds.

Q. Then I take $750,000 off the bonds.

4. Well, if it was turned over to them as part of the purchase price of the assets, I am wondering why the discount of $150,000. A. They must have turned the debentures over at a discount.

Q. Yes, of course. So the capital outstanding was $1,100,000. That is good will and discount?

A. Yes, at that time.

Q. At that time. That good will has partly been written off. A. Partly so. In the period from July to 1925 they have written off $448,250.36 in good will. Mr. Davidson tells me that the balance of the good will was written off to transfer from sinking fund reserve.

Q. I thought it was all written off. The total capital outstanding you told me was how much?

A. Today?

Q. In July. A. $2,250,000.

Q. And of that $750,000 was in bonds?

A. Yes.

Q. Leaving a share capital of $1,514,800?

A. $1,514,800.

Q. That is right, $1,514,800, and of that $448,000 is represented by good will?

A. $150,000 discount.

Q. I have taken the bonds out altogether, so we cannot count it twice. $548,250 is represented by good will, leaving a balance of what?

A. $666,000. Would you just go over those figures again.

Q. Capital, $2,264,800. A. That includes bonds.

Q. Then I take $750,000 off the bonds.

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A. Yes.

Q. Leaving a share capital of $1,614,800.

A. Yes.

Q. And good will $948,235? A. Yes.

Q. The net share capital after deducting good will is $666,000. A. But you should take off the $150,000 because your bonds are still on the books at $750,000. The net value of tangible assets taken over was $516,476.

Q. All right, $516,000 in round figures. Well, on that taken over at that time, on the $516,000 assets taken over by the company at that time, there has been paid in preferred dividends $1,483,840.75. A. Yes.

Q. And in common dividends $524,650, a total of $2,000,000. A. $2,008,490.

BY THE COMMISSIONER: Q. What is the figure or tangible assets taken over?

MR. McRUER: $516,000. Preferred dividends $1,483,840.75; common dividends, $524,650, making in round figures $2,007,000, and they have paid all the interest on the bonds and redeemed them.

THE WITNESS: They have not redeemed them out of that.

MR. McRUER: Not out of dividends, but they have out of the profits of the company.

THE WITNESS: Not necessarily.

BY MR. McRUER: Q. Where did they get the money? A. They would be redeemed out of accumulated profits to some extent, yes.

Q. Where else would they get the money?

A. In your calculations I do not think you are

A. Yes.

Q. Leaving a share equity of $1,614,800.

A. Yes.

Q. And good will $946,280? A. Yes.

Q. The net share capital after deducting good wi I is $666,000. A. But you should take off the $150,000 because your bonds are still on the books at $750,000. The net value of tangible assets taken over was $816,478.

Q. All right, $816,000 in round figures. Well, on that taken over at that time, on the $816,000 assets taken over by the company at that time, there has been paid in preferred dividends $1,406,840.75. A. Yes.

Q. And in common dividends $854,650, a total of $2,000,000. A. $2,009,490.

BY THE CHAIRMAN: Q. What is the figure of tangible assets taken over?

[illegible] $1,406,840.75; [illegible]. $854,650, making in round figures $2,007,000, and they have paid all the interest on the bonds and redeemed them.

THE WITNESS: They have not redeemed them out of that.

MR. MORROW: Not out of dividends, but they have out of the profits of the company.

BY MR. MORROW: Q. Where did they get the money? A. They would be redeemed out of accumulated profits to some extent, yes.

Q. Where else would they get the money?

A. In your calculations I do not think you are

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including in it -- the tangible assets amount to $516,000.

Q. Yes? A. They have paid these dividends, and they have paid debenture interest, and they have written off good will to the extent of $448,000 out of those profits.

Q. Yes? A. And there are some other miscellaneous items, discount on debentures $91,000, loss of Oriental Silk Company investment and of the Australian business of $45,000.

THE COMMISSIONER: When they called in the debentures they issued stock for them, didn't they?

MR. McRUER: Just a small amount.

THE WITNESS: They were convertible debentures, and about $10,000 took advantage of the conversion privilege.

MR. McRUER: The rest were redeemed outright.

THE WITNESS: After doing that there was still a balance of $800,000.

MR. McRUER: That is surplus, in the surplus account.

THE WITNESS: Yes.

BY MR. McRUER: Q. Now we will deal with the last ten years of operations of this company as shown in Exhibit 907. You start off with the first figure, capital employed in operations $2,544,825.99. A. Yes.

THE COMMISSIONER: That is in 1926.

MR. McRUER: In 1926.

BY MR. McRUER: Q. That includes the original investment of $516,000 in bonds that were outstanding at that time? A. $367,000.

Q. $367,000 for bonds? A. And the preferred

including in it -- the tangible assets amount to
$14,000.

Q. Yes? A. They have paid these dividends, and they have paid twenty-two interest, and they have written off good will to the extent of $446,000 out of those profits.

Q. Yes? A. And there are some other miscellaneous items, amounting on debentures $91,000, loss of Oriental Milk Company investment and of the Manufacturing business of $46,000.

THE COMMISSIONER: When they refund in the

MR. MORTON: They were convertible debentures, and about $10,000 cost advantage of the conversion

MR. MORTON: The rest were redeemed outright.

THE WITNESS: After doing that there was still a balance of $800,000.

MR. MORTON: That is arising, in the surplus account.

THE WITNESS: Yes.

last ten years of operations of this company as shown in Exhibit 907. You start off with the first figure, capital employed in operations $3,364,829.39. A. Yes.

THE COMMISSIONER: What is in 1926.

MR. MORTON: In 1926.

BY MR. MORTON: Q. That includes the original investment of $312,000 in bonds that were outstanding at that time?

stock of $865,000.

Q. Yes, but you say that the tangible assets of preferred stock were $516,000 at the start.

A. Yes.

Q. But you have taken it in there at the full book value. A. The capital employed in operations represents the difference between the assets and the liabilities after eliminating the good will.

Q. Yes, all right. A. Then we deduct the bonds and the preferred stock in order to get the common stock equity at this particular time.

Q. Yes. Well, in 1926 the capital employed in the business, after having paid the dividends that had been paid up to that time and taken care of the bond interest and so on, had evidently increased to this figure? A. Yes.

Q. And we are starting off, then, at that time. The capital employed outside the industry was $106,662.15. That would be in outside investment? A. Yes.

Q. And you deduct the bonds and the preferred stock, and you find that the common stock has an equity of $1,418,847.00. A. Yes.

Q. Now it is a fair observation, is it not, that there was more set up for good will in the original capitalization than the whole amount of common stock? A. Yes. $749,000 was common stock.

Q. $749,000 was issued as against $948,000 of good will. A. And the other securities.

Q. So the common stock, which I think it is fair to take as issued for good will in 1926, had a

stock of $950,000.

Q. Yes, but you say that the tangible assets of preferred stock were $313,000 at the start.

A. Yes.

Q. But you have taken it in there at the full book value. A. The capital employed in operations represents the difference between the assets and the liabilities after eliminating the good will.

Q. Yes, all right. A. When we deduct the bonds and the preferred stock in order to get the common stock equity at this particular time.

Q. Yes. Well, in [illegible] in the business, after having paid the dividends that had been paid up to that time and taken care of the bond interest and so on, had evidently increased to this figure? A. Yes.

Q. And we are starting off, then, at that time the [illegible] was $105,052.15. That would be in outside investment? A. Yes.

Q. And you deduct the bonds and the preferred stock, and you find that the common stock has an equity of $1,419,847.00. A. Yes.

Q. Now it is a fair observation, is it not, that there was more set up for good will in the original capitalization than the whole amount of common stock? A. Yes. $749,000 was common stock.

Q. $749,000 was issued as against $949,000 of [illegible].

value according to their records of $1,418,000, and in 1935 it had become $1,634,000. A. Yes.

-- The Commission took a short recess.

-- On resuming.

BY MR. McRUER: Q. Now, Mr. Howson, following up the statement of the Belding-Corticelli Company contained in Exhibit 907, you have here the net revenue applicable to common stock equity; that is after paying all bond interest, preferred stock dividend, income taxes and everything clear -- you have to apply on this common stock that was issued 100 per cent for good will, "net revenue applicable to common stock equity" in 1926, $84,375.46; 1927, $103,740.10; 1928, $129,348.53; 1929, $151,744.26; 1930, $91,959.92; 1931, $28,133.04; 1932, $58,202.57; 1933, $35,085.02; 1934, $37,792.29; 1935, $81,769.05. Or in the five years of depression -- A. From 1931, do you mean?

Q. From 1931 to 1935 the company had how much that was available to apply on the common stock dividends? What is the sum for those five years? A. It is over $240,000.

Q. Over $240,000 on a stock that did not cost anybody anything.

MR. KELLOCK: Did not cost anything?

THE COMMISSIONER: What do you mean by that? It was all issued for good will.

MR. McRUER: It was all issued for good will, and I will have the evidence of the Dominion Bond Company to show where that came in before we are through.

value according to their records of $1,418,000,
and in 1938 it had become $1,614,000. A. Yes.

-- The Commission took a short recess.

-- On resuming.

MR. [illegible]: Mr. [illegible], continue.

Up the statement of the Dolphin-Cartwright Company contained in Exhibit 907. You have here the net [illegible] after paying all bond interest, preferred stock dividend, income taxes and everything else -- You have to apply on this common stock that was issued 100 per cent for good will, "net revenue applicable to common stock equity" in 1926, $64,375,46; [illegible] 1929, $241,444,94; 1930, $261,764.26; 1931, $21,359.85; 1932, $89,158.04; 1933, $38,302.37; 1934, $75,085.02; 1935, $84,796.89; 1936, $81,769.05. Or in the five years of depression --

A. From 1931, do you mean?

Q. From 1931 to 1936 the company had how much that was available to apply on the common stock dividends? What is the sum for those five years?

A. It is over $240,000.

Q. Over $240,000 on a stock that did not cost anybody anything.

MR. [illegible]: Did not cost anything?

THE COMMISSIONER: What do you mean by that?

It was all issued for good will.

MR. DOUGLAS: It was all issued for good will. And I will have the evidence of the Dominion Bond Company to show where that came in before we are [illegible].

MR. KELLOCK: Do you know that the common stock did not cost anybody anything?

MR. McRUER: Certainly it did not. Part of the preferred stock was issued for good will.

MR. KELLOCK: But did not the shareholders pay anything for it?

MR. McRUER: Not the people that got it if it was issued for good will.

MR. KELLOCK: But what did they pay for it?

MR. McRUER: That is the profit the people made on the syndicate.

MR. KELLOCK: That has not been proved. Why state it until it is in evidence.

MR. McRUER: It was issued for good will, and if it was issued for cash it should be set out in the books as cash and not as for good will, which is the way the company treated it. Certainly it is your company and if it was not issued for good will someone can go into the witness box and say that it was issued for cash.

MR. KELLOCK: Good will is the consideration so far as the company is concerned, but what the shares paid is what it cost.

MR. McRUER: No, we asked in the return what was issued for cash and what was issued for other consideration, and we are now dealing with the matter on the basis of the return which the company has made to this commission. I am taking their word for it, that it was not issued for cash.

BY MR. McRUER: Q. Now Mr. Howson I want the net profits for those five years, 1931 to 1935 inclusive, the sum of the net profits which this company

stock did not count anybody anything?

MR. MORGAN: Certainly it did not. Part of the preferred stock was issued for good will.

MR. KELLOCK: But did not the shareholders pay anything for it?

MR. MORGAN: Not the people that got it if it was issued for good will.

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MR. MORGAN: No, we agreed in the return what was issued for cash and what was issued for other consideration, and we are now dealing with the matter on the basis of the return which the company has made to this commission. I am taking their word for it, that it was not issued for cash.

BY MR. MORGAN: Q. Now Mr. Dawson I want the net profits for those five years, 1913 to 1918 inclusive, the sum of the net profits under this com-

made in that period. A. $559,070.

Q. So that the company made in net profits, after paying income tax, depreciation and everything that we can charge against their operations -- what did you say it was?

THE COMMISSIONER: You are down to the last line on the page, are you?

MR. McRUER: Yes, my lord.

THE WITNESS: That is the net profit on sales, Mr. McRuer, without any addition for outside investment income and without any deduction for income tax.

THE COMMISSIONER: It is all based on sales. It runs from sales down.

BY MR. McRUER: Q. Now Mr. Howson, give me the net profit after the payment of income tax, for that five-year period.

THE COMMISSIONER: That is something to be added to the figures here, isn't it?

MR. McRUER: Yes, it is not shown.

(Page 12380 follows)

(Page 12880 follows)

A. Well, your income tax, of course, the net profits before dealing with the Income tax should be increased by the outside revenue.

Q. Well, these figures will give it to me.

THE COMMISSIONER: I see you are charging, are you, the whole of the Income tax to the sales? A. No, this net profit is the net profit on the sales before being affected by any other factors in order that the percentage of profit in relation to the sales can be determined.

Q. Then you have that here. You say that is not the whole net profit? A. No.

Q. Because there are investments.

MR. McRUER: Q. The total amount of the preferred dividend added to the total amount of revenue available for the common stock equity. You have given me the one figure? A. No, that is not right. Those figures, I thought you were talking about net profit on the sales.

Q. No, I just want the net profit after everything before division among the shareholders.

THE COMMISSIONER: Are you talking of one year or five years?

MR. McRUER: Five-year period.

THE WITNESS: $543,836.00.

THE COMMISSIONER: Pardon me, does that represent just the addition of those five items here?

MR. DAVIDSON: We took the net revenue and added

A. Well, your income tax, of course, the net profits before dealing with the income tax should be increased by some suitable figure.

Q. Well, these figures will give it to me.

THE COMMISSIONER: I see you are swearing, are you, the whole of the income tax to the sales? A. No, this net profit is the net profit on the sales before being affected by any outer factors in order that the percentage of profit in relation to the sales can be determined.

Q. Then you have that here. You say that is not the whole net profit? A. No.

Mr. HEMSLEY: Q. The total amount of the preferred dividend added to the total amount of revenue available for the common stock equity. You have given me the one figure? A. No, that is not right. Those figures, I thought you were talking about net profit on the sales.

. No, I just want the net profit after everything before division among the shareholders.

THE COMMISSIONER: Are you talking of one year or

just the addition of those five items here?

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back the preferred dividend.

THE WITNESS: That is net revenue applicable to the common stock equity.

Q. Because that amounts to just about the same thing I notice, net profit arising out of sales? A. There would not be a great deal of difference because there would be outside revenue against which would be deducted the income tax. There would be some difference between the two.

MR. McRUER: Q. Apparently in the five years, which I called the depression years, the company earned in net profits, after paying bond interest, income tax and everything of that sort, more than the total amount of cash invested in the company at the inception, $516,000? A. The tangible assets you mean?

Q. Yes. A. Yes, that calculation would show that.

Q. Now, the net profit on sales of this company from 1926 to 1935 seems to have been very uniform, the lowest point in 1931 being 3.45 % and the highest point being in 1928 of 6.4 % and the year 1935, we have 5%? A. Yes.

Q. Now, in arriving at these figures was any allowance made for transfers to this inventory reserve? A. No, we took the company's accounts.

Q. The Company's accounts as they stood? A. As turned in to us, the only thing that was done was to treat the inventory reserve as part of the capital.

book the preferred dividend.

THE WITNESS: That is not revenue applicable to the common shareholders.

Q. Because that amounts to just about the same thing, not quite adding out at exactly. There would not be a great deal of difference because there would be outside revenue against which would be deducted the income tax. There would be some difference between the two.

MR. MONTGOMERY: Q. Apparently in the five years, which I called the depression years, the company earned in net profits, after paying bond interest, income tax and everything of that sort, more than the total amount of cash invested in the company at the inception, [illegible]

[illegible] Yes. [illegible]

Q. Now, the net profit on sales of this company from 1926 to 1930 seems to have been very uniform, the lowest point in 1931 being 3.45 % and the highest point being in 1928 of 6.4 % and the year 1930, we have 5%?

A. Yes.

Q. Now, in arriving at these figures was any allowance made for transfers to this inventory reserve?

A. No, we took the company's accounts.

Q. The Company's accounts as they stood?

A. As formed in the, see only thing [illegible]

THE COMMISSIONER: Q. Do I understand the questionnaires refer to an inventory reserve? A. Yes.

MR. McRUER: Q. How much was it stated to be?

THE COMMISSIONER: What year are you talking about?

MR. McRUER: It ran over a period of years. I might give you the minimum or maximum.

THE COMMISSIONER: Does not it still run?

THE WITNESS: Yes. At the end of 1926 stood at $400,000, at the end of 1927 stood at $406,000. At the end of 1928 $405,000. At the end of 1929 $553,965.00, At the end of 1930, $467,387.00. At the end of 1931 $355,005. At the end of 1932 $295,943. At the end of 1933 $267,836. At the end of 1934 $241,367. At the end of 1935 $237,148. We treated that as free reserve. We did not treat it in the same way as we do depreciation reserve. We took the inventory at the book value as part of the capital investment, without reducing the value of it before reserve.

Q. Well now, the inventory reserve in 1926 was stated to be how much? A. $400,000 even.

Q. I am looking at the balance sheet contained in Exhibit 909 which shows the inventory at $691,719.? A. That is right. The inventory here is $1,091,000.

Q. So that there apparantly was about a 40% depreciation that year? A. Yes, sir. The reserves stood at a little less than 40% of the total of the inventory.

MR. KELLOCK: Which year?

of the inventory.

MR. McRUER: 1926.

Q. What do you say it was in 1927? A. $406,000.

Q. And the reserve was $654,000, so that it was about the same? A. No, the inventory.

Q. The inventory $654,000? A. The highest figure was in 1929 when the reserve stood at $565,925.

Q. The inventory that year was how much? A. $1,560,000, so that reserve was considerably higher.

Q. The reserve shown on this balance sheet is--- A. The inventory shows.

Q. The inventory shown on the balance sheet? A. The inventory shown here is $1,053,000, and the reserve $557,965.00, so that would be the ifference.

Q. So that the inventory was written down about $500,000? A. Well, the reserve was brought up.

Q. Whichever way you like but the inventory at any rate was shown in the balance sheet at $495,000, which would be less than half of what it actually was. But there is the statement in the balance sheet "Inventory less reserve."

THE COMMISSIONER: Without showing how much less?

MR. McRUER: No, my lord.

Q. So that it would make quite a difference in the re-casting of these figures of profits that were made in these various years if the inventory was shown at its full value.

MR. KELLOCK: Well, is the witness familiar with the raw material costs over period of years?

THE COMMISSIONER: Let me hear your question again.

MR. McRUER: Q. It would make quite a difference in the re-casting of the "Balance Sheet" if the inventory had been shown in their Profit and Loss Account and balance sheets as at the figure that they reported it to you at? A. If what Mr. MacDougall says is the method in which they value the inventory there would be two bases of fluctuations. The inventory being at fixed value all the time there would be fluctuations between the rise and fall of market value and there would be the fluctuation between rise and fall in quantities, as between each year.

MR. McRUER: So that while we have compiled here a statement from the returns that they sent to you it may not reflect the whole story of the operations, of the profits of the Company.

MR. KELLOCK: Surely, my lord.

THE COMMISSIONER: See what he can say.

THE WITNESS: It might reflect the correct results from year to year.

MR. McRUER: Q. Because the reserve was fluctuating? A. Yes. Of course I am not clear yet as to the basis on which this inventory was taken? and so I am not able to make any definite statement.

Q. No, we probably will have to find out a little more about that. Well, I think that is all I can trouble you with.

THE COMMISSIONER: That is, you are through with Belding-Corticelli?

THE COMMISSIONER: Let me hear your question again.

MR. McDONALD: Q. It would make quite a difference in the re-casting of the "Balance Sheet" if the inventory had been shown in their Profit and Loss Account and Balance Sheets as at the figure that they reported it to you as? A. If what Mr. McDougall says is the method in which they value the inventory there could be two bases of fluctuations. The inventory being fixed value all the time there would be fluctuation between the rise and fall of market value and there would be the fluctuation between rise and fall in quantities as between each year.

MR. McDONALD: So that while we have examined more a statement from the returns that they sent to you it may not reflect the whole story of the operations of the profits of the Company.

MR. [illegible]: Surely, my Lord.

THE COMMISSIONER: See what he can say.

THE WITNESS: It might reflect the correct result from year to year.

A. Yes. Of course I am not clear yet as to the basis on which this inventory was taken? and so I am not able to make any definite statement.

Q. No, we probably will have to find out a little more about that. Well, I think that is all I can [illegible]

MR. McRUER: Yes.

THE COMMISSIONER: Do you wish to examine Mr. Howson right now on that Company?

MR. KELLOCK: There are two companies, my lord.

THE COMMISSIONER: Just as you like yourself. You can do it now or you can wait.

MR. KELLOCK: I think I will leave it. I would like to do it at the end of this group.

THE COMMISSIONER: In the silk group.

MR. KELLOCK: Yes, my lord.

MR. McRUER: There is one matter that had been referred to and we had not particulars of it and that was some group insurance plan for the employees. Mr.Howson, was there any reserve set up for an insurance reserve or anything of that sort? A. There is Employees insurance Reserve, yes.

Q. What does it amount to? A. At the end of 1926 it was $68,795, and it ran along to $72,000, $78,000, $87,000, $94,000, $68,000, $59,000, $47,000, $51,000, and then in 1935 goes up to $130,000.

Q. Seems to have been a big jump in the appropriation to the reserve in 1935.

THE COMMISSIONER: Q. Do you call that "Insurance Reserve"? A. It is headed "Employees Insurance Reserve."

Q. The Company was insuring their employees? A. I don't know what the scheme was.

MR. McRUER: It is mentioned here, I will just read it.

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THE COURT CLERK: Do you wish to examine Mr. Hobson right now on that Company?

MR. KELLOCK: There are two companies, my Lord.

THE COMMISSIONER: That is for you like yourself. You can do it now or you can wait.

MR. KELLOCK: I think I will leave it. I would like to do it at the end of this group.

THE COMMISSIONER: In the sick group.

MR. KELLOCK: Yes, my Lord.

MR. MORDEN: There is one matter that had been referred to and we had not particulars of it and that was some Group Insurance Plan for the employees. Mr. Hobson was there any reserve set up for an insurance reserve or anything of that sort? A. There is

Q. What does it amount to? A. At the end of 1938 it was $66,795, and it ran along to $75,000, $77,000, $80,000, $85,000, $90,000, $95,000, $97,000, $97,000, $97

"The Directors of this Company are pleased to announce that arrangements have been completed with the Sun Life Assurance Co. of Canada for the adoption of a Plan of Group Life Assurance.

In view of the fact that the Company is to assume over one-half of the cost, it is the desire of the Directors that every eligible employee to whom this may be presented should show his or her support by signing the application card provided.

The Plan as explained on the following pages is the result of careful study and investigation, and particular attention is drawn to the low rate of employee contributions, also to the clause whereby no medical examination is required.

September 1st, 1936, is the effective date for starting the Plan and due recognition will be given annually thereafter in the amount of principal benefit for any increase in salary which may occur."

And "DETAILS OF GROUP ASSURANCE PLAN.

"Those Eligible, All present salaried employees of the Company. New employees will be eligible after having completed six months' continuous service.

Plan of Assurance. The plan of Assurance for salaried employees is as outlined below:"

Annual earnings, $500,00 and less - amount of assurance $500.00 and employees monthly contribution, 30 cents.

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of employee contributions, also to the clause
whereby no medical examination is required.

September 1st, 1936, is the effective date
for starting the Plan and due recognition will be
given promptly thereafter in the amount of pension
benefit for any increase in salary which may occur.

Full "DETAILS OF GROUP ASSURANCE PLAN.

"Any difficulty. All present salaried employees
of the Company. New employees will be eligible
after having completed six months' continuous
service.

Plan of Assurance. The Plan of Assurance for
salaried employees is as outlined below:"

Annual earnings $500.00 and less - amount of assurance

Then B, Annual earnings, $500 to $750, amount of assurance $750, and the employees monthly contribution 45¢, and goes on up to $5,000, monthly contribution is $3.00.

THE COMMISSIONER: What is the insurance against, illness and accident as well?

MR? McRUER: "The death benefit will be paid in the case of death of an employee ~~to~~ the beneficiary named by the employee.

The assurance will be issued without any medical examination.

This policy provides cover without premium payments for employees whose service and assurance are terminated by disability and who die before reaching age sixty-five, without recovering from such disability during a period not in excess of that for which premium payments were made on their behalf but in no case to exceed one year from date of termination of service."

"Should an employee leave the service of the Company he may, withint thirty-one days, convert his assurance into any of the standard plans of the Sun Life Assurance Company of Canada (excepting Term Assurance) but without the total and permanent disability benefit or the double indemnity accident benefit, at current rates, but with no medical examination whatsoever.

This insurance does not in any way interfere with any benefits available under any of the various

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illness and accident as well?

MR. MONK, Q.C.: The death benefit will be paid in the case of death of an employee to the beneficiary named by the employee.

The assurance will be issued without any medical examination.

This policy provides cover without premium payments for employees under active and regular service benefited by disability and who die before reaching age sixty-five, without recovering from such disability during a period not in excess of that for which premium payments were made on their behalf but in no case to exceed one year from date of termination of service."

"Should an employee leave the service of the Company he may, within thirty-one days, convert his assurance into any of the standard plans of the Sun Life Assurance Company of Canada (excepting Term Insurance) but without the total and permanent disability benefit or the double indemnity accident benefit, at current rates, but with no medical examination whatsoever."

Provincial Workmen's Compensation Acts."

And there is apparently a double indemnity - I do not see it mentioned here. Do they pay double indemnity, Mr. MacDougall, in case of death from accident?

MR. MacDOUGALL: I would not say.

MR. McRUER: It does not specifically say so but one would rather gather from the language of rights of conversion that they did. What is this reserve that is set up for the employees?

MR. MACDOUGALL: To take care of employees who become sick or have illness or troubles of one kind or another in order to assist them.

MR. McRUER: It has nothing to do then with this plan? Reserve has nothing to do with this group insurance plan?

MR. MacDOUGALD: No. The Government allow us every year the amount of money that we actually pay out.

MR. McRUER: You set aside this fund and pay it out voluntarily to such objects as you select among your employees, using your discretion?

THE COMMISSIONER: That has nothing to do with this scheme?

MR. MacDOUGALL: No. We paid out over $100,000 in the last ten years to our employees to assist them.

MR. McRUER: Very well, that is all of Belding-Corticelli. Here is the Bruck.

The next exhibit then, my lord, will be the answers to the questionnaire submitted by Bruck Silk Mills.

EXHIBIT 910: Answers to questionnaire by Bruck Silk Mills.

Provincial Workmen's Compensation Acts."

And there is apparently a double indemnity - I do not see it mentioned here. Do they pay double indemnity, Mr. Macdougall, in case of death from accident?

MR. MACDOUGALL: I would not say.

MR. MORTON: It does not specifically say so but one would rather gather from the language of figure of conversion that they did. What is this reserve that is set up for the employees?

MR. MACDOUGALL: To take care of employees who become sick or have illness or trouble of one kind or another in order to assist them.

MR. MORTON: It has nothing to do then with this plan? Reserve has nothing to do with this group insurance plan?

MR. MACDOUGALL: No. The Government allow us every year the amount of money that we actually pay out.

MR. MORTON: You set aside this fund and pay it out voluntarily to such objects as you select among your employees, using your discretion?

THE COMMISSIONER: That has nothing to do with this scheme?

MR. MACDOUGALL: No. We paid out over $100,000 in the last ten years to our employees to assist them.

MR. MORTON: Very well, that is all of Building-Control.

[illegible] the questionnaire submitted by Mr. Buck with this.

[illegible] Answers to questionnaire by Mr. Buck

THE COMMISSIONER: Where are these people?

MR. McRUER: Cowansville, Quebec. Head Office in Montreal. And the Annual statements of the Bruck Silk Mills from 1922 to 1935, inclusive, will be the next Exhibit.

EXHIBIT 911: Annual statement of Bruck Silk Mills from 1922 to 1935, inclusive.

Q. Now, this Company apparently started business in 1911? A. No.

Q. 1922, rather? A. It was incorporated apparently December 1st, 1921.

Q. The first annual statement is as of the 31st December, 1922? A. Yes.

Q. The share capital of the Company on incorporation amounted to how much, the issued share capital? A. In April 1922 there was a total capital of $262,500.00 made up of $31,000 preferred, and $231,500 of common.

THE COMMISSIONER: What is the value of those shares, the common? A. That was the dollar value, $231,500, making total of $262,500, the two of them.

Q. These common shares have they any par value? A. Yes, they had a par value of $100.00, I think.

MR. McRUER: There are 2,000 shares.

THE COMMISSIONER: 2,315.

MR. McRUER: In their balance sheet they have 2,000 shares. I do not know how they figure that.

THE WITNESS: Yes, 2,000 shares they say here for which they got $231,500.

Q. You say they got that? A. That is what they

THE COMMISSIONER: Where are there people?

MR. [illegible]: Operating, Quebec. And Cliffe in Montreal. And the annual statements of the Brook Silk Mills from 1922 to 1929, inclusive, will be the next Exhibit.

EXHIBIT V11: Annual statement of Brook Silk Mills from 1922 to 1929, inclusive.

Q. Now, this Company apparently started business in 1921? A. No.

Q. 1922, rather? A. It was incorporated apparently December 1st, 1921.

Q. The first annual statement I see of the 31st December, 1922? A. Yes.

Q. The share capital of the Company on incorporation amounted to how much, the issued shares capital? A. It was made up of $31,000 preferred, and $331,800 of common.

THE COMMISSIONER: What is the value of those shares, the common? A. That was the dollar value, $331,800, making total of $362,800, the two of them.

Q. These common shares have they any par value?

A. Yes, they had a par value of $100.00, I think.

MR. [illegible]: There are 3,318 shares.

THE COMMISSIONER: 3,318.

MR. MCLEAN: In their balance sheet they have 3,000 shares. I do not know how they figure that.

THE COMMISSIONER: Yes, 3,000 shares they say were for [illegible] they got $331,800.

set it up in their books at, $231,500.

Q. Well, later that year was there some preferred shares issued? A. No, they were issued at the same time, $31,000 ---

Q. On this balance sheet they have preferred shares $81,000? A. At what date? That is right because in August 1922, there was another $50,000 of preferred issued.

Q. So that the total issue of preferred stock in the year 1932 was $81,000 ? A. Yes, sir.

Q. And common stock $231,500? A. Yes.

Q. How much of this stock was issued for cash? A. $262,500, company received $25,000 cash.

THE COMMISSIONER: You are going back to the other figure now? A. Yes.

Q. $262,500, they received how much? A. $25,000 in cash and $6,000 in machinery, $31,000 altogether, and the balance $231,500, was set up as good will.

Q. The balance of the $231,000? A. No, the balance was set up as good will. The August issue they received ---

Q. The August issue of what? A. Of the preferred stock. They received cash for it according to the returns.

MR. McRUER: Q. Well, apparently they received cash, $81,000, and the balance was good will? A. Yes.

Q. The whole of the common stock apparently.

THE COMMISSIONER: Just a moment. You say $81,000 preferred stock shown as cash there?

set it up in their books at, $231,000.

Q. Well, later that year was there some preferred shares issued? A. No, they were issued at the time, [illegible] ---

Q. On this balance sheet they have preferred shares $231,000? A. At what date? That is right because in August 1928, there was another $69,000 of preferred issued.

Q. So that the total issue of preferred stock in the year 1928 was $231,000 ? A. Yes, sir.

Q. And common stock $231,000? A. Yes.

Q. How much of this stock was issued for cash?

A. $162,500, remainder [illegible] ---

THE COMMISSIONER: You are going back to the other figure now? A. Yes.

Q. $262,500, they received how much? A. $69,000 in cash and $6,000 in machinery, $81,000 altogether, and the balance $231,000, was set up as good will.

Q. The balance of the $231,000? A. No, the balance was set up as good will. The August issue was ---

Q. The August issue of what? A. Of the preferred stock. They received cash for it according to the returns.

MR. MORDEN: Q. Well, apparently they received cash, $81,000, and the balance was good will? A. Yes.

Q. The whole of the common stock apparently.

A. $75,000 of cash and $6,000 of machinery.

Q. And what about the other $25,000 cash, what was that for? A. That was part of the $75,000. Mr. McRuer is now dealing with it as preferred and common, and of the total which was issued for $81,000 they received $75,000 in cash and $6,000 in machinery and $231,500 common represents the good will.

MR. McRUER: Q. Well now, was there any change in the capital structure of the company later on ? A. The Company's name was changed in 1924 to Bruck Silk Mills, Limited.

Q. Well, what was the former name? A. Premier Silk Mills, Limited.

Q. And in 1924 it was changed to Bruck Silk Mills, Limited? A. Yes, sir.

Q. And what happened then? A. And they issued in December, 1934, $200,000 worth of bonds, $79,000 of preferred stock, which realised $259,000 in cash, there being a discount of $20,000 on the bonds.

MR. KELLOCK: The whole thing realised, both these.

THE WITNESS: The bonds and the preferred ~~to~~ stock. Then on December 1925, they redeemed preferred stock by the issue of common stock.

THE COMMISSIONER: All of preferred stock?

THE WITNESS: They redeemed---

MR. McRUER: Q. Before you get to that, the common shares of the Bruck Silk Mills were still carried in their statement of the 31st December, 1934, at $231,500?

A. $75,000 of cash and $6,000 of machinery.

Q. And what about the other $25,000 cash, what was that for? A. That was part of the $75,000. The company is now dealing with it as preferred and common and of the total union was issued for $81,000 they received $75,000 in cash and $6,000 in machinery and $231,300 common represents the good will.

MR. MORGAN: Q. Well now, was there any change in the capital structure of the company later on?

A. The Company's name was changed in 1914 to Brock Silk Mills, Limited.

Q. Well, what was the former name? A. Trent Silk Mills, Limited.

Q. And in 1914 it was changed to Brock Silk Mills, Limited? A. Yes, sir.

Q. And what happened then? A. And they issued in December, 1914, $200,000 worth of bonds, $75,000 of preferred stock, which realized $50,000 in cash, there being a discount of $20,000 on the bonds.

MR. MCILLOR: The whole thing realized, both these

THE WITNESS: The bonds and the preferred ---- stock

by the issue of common stock.

THE COMMISSIONER: All of preferred stock?

THE WITNESS: Over ----

MR. MORGAN: Q. Before you get to that, the common shares of the Brock Silk Mills were split [illegible]

Trent's statement of the 31st December, 1914, at $231

A. Yes.

Q. That was the same amount? A. Yes, there was no change in the common capital.

Q. And the cash that was brought in to the Company was in respect of bonds and preferred shares? A. Yes.

Q. Now then, we come to the next change? A. And then in December, 1925, they redeemed all the preferred stock of $160,000 by the issue of 23,000 shares of common stock and they set that up on the books as $106,000.

Q. Well, how much was the value of the preferred stock? A. $160,000, but they set the new common up at $106,000 and the difference of $54,000, which was a credit, they transfer to the Bond Discount Account, because at the same time they issued bonds at a discount. In 1925 they issued $355,000 worth of bonds and sold them at a discount of $49,000.

Q. So that the effect of that was to absorb the discount on the bonds in the surplus ? A. That was created by the exchange.

Q. Created by the exchange of the common shares for the preferred shares? A. Yes.

Q. That was really a cash value - there had been cash put into the preferred shares, common issued set up on the books at lower value and difference taken to absorb the difference on the bonds? A. Yes. And then January, 1927 there was a further issue of bonds of $200,000 which realised $185,000, a discount of $15,000 and on April, 1934 they issued $450,000

A. Yes.

Q. That was the same amount? A. Yes, there was no change in the common capital.

Q. And the cash that was brought in to the Company was in respect of bonds and preferred shares? A. Yes.

Q. Now then, we come to the next change? A. And then in December, 1928, they redeemed all the preferred stock of $150,000 by the issue of 80,000 shares of common stock and they set that up on the books as $100,000.

Q. Well, how much was the value of the preferred A. $150,000, but they set the new common up at $100,000 and the difference of $50,000, which was a credit,

the same time they issued bonds at a discount. In 1928 they issued $300,000 worth of bonds and sold them at a discount of $49,000.

Q. So that the effect of that was to absorb the

created by the exchange.

Q. Created by the exchange of the common shares for the preferred shares? A. Yes.

Q. That was really a cash value - there had been cash put into the preferred shares, common issued

to absorb the difference on the bonds? A. Yes.

And then January, 1929 there was a further issue of

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of common stock, 25,000 shares, for which the company received $450,000. That completes the transaction in the stock.

Q. Just give me that issue of common shares again- when was that? A. 1934 in April.

Q. And how much was issued? A. 25,000 shares at a price of $450,000.

Q. At $450,000? A. Yes, sir.

Q. Then those shares shared pari passu with the common shares that had been issued for good will for whatever we may call it, originally, $231,000.

A. Yes, I would think so, because apparently there is no distinction made between ---

Q. Well then, just let us see how they have been getting along. Your statement deals with the Company from 1926 on. I think I will go back to 1925 which appears to be about the first year after they got established, complete year? A. Well, their returns in the questionnaire cover 13-months period from January 1st, 1926 to January 31st, 1927, so that they changed ---

Q. Well, that is for the new company? A. Yes.

MR. KELLOCK: The same company, just a change of name.

MR. McRUER: Well, they changed the capital structure to a certain extent.

Q. Well then, when we get to 1926 how much is the actual cash investment, that would be shown by your capital employed in operations less the cumulated

of common stock, 25,000 shares, for which the company received $400,000. That completes the transaction in the stock.

Q. Just give me that issue of common shares again- when was that? A. 1934 in April.

Q. And how much was issued? A. 25,000 shares at a price of $250,000.

Q. Then those shares shared pari passu with the common shares that had been issued for good will or whatever we may call it, originally, $821,000.

A. Yes, I would think so, because apparently there is no distinction made between ---

Q. Well then, just let us see how they have been getting along. Your statement deals with the Company from 1936 on. I think I will go back to 1935 which appears to be about the first year after they got established, complete year? A. Well, their fiscal year in the question omnaire cover 13-months period from January last, 1936 to January 31st, 1937, so that they changed --

Q. Well, that is for the new company? A. Yes.

MR. BULLOCK: The same company, just a change of name.

MR. MONUM: Well, they changed the capital structure to a certain extent.

Q. Well then, when we get to 1936 how much is the actual cash investment, that would be shown by your

surplus at that time, that would show what had been invested from outside, would not it? A. What is that again?

Q. I say the capital employed in the operation less the cumulative surplus would show how much was invested from outside? A. Well, you would have to take your bonds into consideration.

Q. Oh yes, you start off with $894,096? A. Yes.

Q. How much of that is bonds? A. $550,000.

Q. Then we have common stock equity $349,942.00? A. Yes.

Q. That is at the end of 1926? A. Yes.

Q. Now, how much of that was actually paid into the Company by the investors? A. Well, at that time your preferred stock has all been redeemed.

MR. KELLOCK: But changed in character.

MR. McRUER: Q. Redeemed by selling common? A. Yes. So that there would be the value of the preferred stock - $160,000 is really the cash that went into the issue of that stock up to that time.

Q. Well, had the rest been accumulated surplus? A. The difference between $160,000 and $349,000?

Q. Yes? A. I would think so.

Q. That would be about $180,000? I do not see that that figures out according to their Balance Sheet? A. Well, $160,000 was all that was paid for stock up to that time, and of that $54,000 was applied against discount, so that the stock value would be reduced by

surplus at that time, that would show what had been
invested from outside, would not it? A. That is the

Q. I say the capital employed in the operation [illegible]
the cumulative surplus would show much was invested from
outside? A. Well, you would have to take your book
into consideration.

Q. Oh yes, you start off with $200,000? A. Yes.

Q. How much of that is bonds? A. $600,000.

Q. Then we have common stock equal $200,000?

A. Yes.

Q. That is at the end of 1908? A. Yes.

Q. Now, how much of that was actually paid into the
Company by the investors? A. Well, at that time your
preferred stock has all been redeemed.

MR. HELLICK: But changed in character.

MR. McCUEN: Q. Redeemed by issuing common?

A. Yes. So that there would be the value of the
preferred stock - $160,000 is really the cash that went
into the issue of that stock up to that time.

Q. Well, had the rest been accumulated surplus?

A. Yes? A. I would think so.

Q. That would be about $160,000? I do not see that
that figures out according to their balance sheet?

A. Well, $160,000 was all that was paid for stock up

the $54,000.

Q. So that the Company started business in 1922, and in 1926 the value that the $160,000 invested had was $349,000? A. Yes.

Q. I just want to be sure of that? A. Well, I have not got the figures prior to 1926 tabulated.

Q. We can probably work that out this evening? A. Yes, sir, but I do not see any reason why that is not the correct deduction.

Q. Well then, by 1935 that value had risen to what figure? A. $1,273,384. But there was $450,000 paid in in 1934.

Q. $400,000 paid in in new capital? A. $450,000 paid in new capital in April, 1934.

Q. We will deal with the 31st of December, 1933, - would be the fair date in making the comparison? A. Well, you can deduct the $450,000.

Q. Yes, but you see the $450,000 started to work in 1934 but the $160,000 invested in 1922 had accumulated a value of $899,119.42 by the 31st of December, 1933, according to this statement. Now, in addition to that or is it in addition? What dividends have been paid in the meantime? A. From 1922 to 1935?

Q. Yes, we better have the whole story? A. The total amount was $412,500.

Q. And that, of course, is exclusive of bond interest and interest on loans and all other things. So if our figure of $160,000 is correct on a $160,000-investment

a return of $412,500 since ---? A. No, because in 1934 and 1935 of that ---

Q. Yes, there is new capital there, that is right. So that I better have the dividends paid up to 1933? A. They were only $150,000 and in 1934 and 1935 they paid out $262,500.

Q. Well, we might over the adjournment work out how much of $262,000 was attributable to the original common stock. I just want to get at how the original investment fared over a period of years. Now, it did that on net profits on sales which are shown in the lower tabulation running from a low of one per cent. in 1930 to a high of 20% in 1929, 20.4%.

THE COMMISSIONER: One year there you go from the high to the low.

MR. KELLOCK: Seems to be a fair amount of hazard.

MR. McRUER: There seems to have been a big loss in 1930, $33,000.

THE COMMISSIONER: Under what heading?

MR. McRUER: Under the Net Revenue after common stock equity, instead of it increasing it decreased by $33,000.

THE WITNESS: Excuse me, there was not a loss on operations.

Q. No, not on operations. What was the result of operations that year? A. $14,700. against $349,341 the year before.

Q. A profit of $349,341 the year before and profit

a return of $415,500 since ---? A. No, because in

1934 and 1935 of that ---

Q. Yes, there is now capital there, that is right.

So that I better have the dividends paid up to 1933?

A. They were only $150,000 and in 1934 and 1935 they paid

out $282,500.

Q. Well, we might over the adjournment work out

how much of $282,000 was attributable to the original

common stock. I just want to get at how the original

that on net profits on sales which are shown in the lo

tabulation running from a low of one per cent. in 1932

to a high of 80% in 1929, 80.4%.

THE COMMISSIONER: One year there you go from the

high to the low.

MR. KERLOCK: Seems to be a fair amount of hazard.

MR. MORDEN: There seems to have been a big loss

in 1930, $35,000.

THE COMMISSIONER: Under what heading?

MR. MORDEN: Under the Net Revenue after common

stock equity, instead of it increasing it decreased

by $21,000.

THE WITNESS: Excuse me, there was not a loss on

operations.

Q. No, not on operations. What was the result

of operations that year? A. $14,700, against

of $14,000 in 1930.

MR. KELLOCK: The value of the equity at any rate --

MR. McRUER: Yes, value of equity of common stock.

MR. KELLOCK: And $18,000 the following year.

THE WITNESS: Not a great deal of difference in the sales between those two years.

MR. McRUER: We have not any information as to how the inventory was made up by this Company. Any suggestion of inventory reserve or any hing of that sort in their return to you? A. No.

THE COMMISSIONER: I see there is one company left in the silk group.

THE WITNESS: Grout's Limited.

THE COMMISSIONER: Can you give me any idea how long this whole thing is going to take, going over these questionnaires, etc. We have done four companies to-day.

MR. McRuer: Then we have just summary and that finishes the silk group. There is one more company. Then we have the cotton companies. We finished Courtaulds to-day. We have cotton companies and the woollen companies and the hosiery and knit goods and carpets.

THE COMMISSIONER: At the rate of say five a day?

MR. McRUER: It will take us four days at any rate.

THE COMMISSIONER: Have you arranged with Mr.Kellock about any order at all about proceeding with these companies?

MR. McRUER: Yes. I am trying to accommodate people

who have conflicting interests more or less so far as I can. I intended to go right on with the cotton companies as soon as through with this. Mr. Geoffrion is engaged in the Court of Appeal in Montreal and I told him I would not touch the Dominion Textile tomorrow but try and go on with the other cotton companies. We can go on with the woollen companies if we have to. I understand they are quite anxious we do not reach them until next week.

MR. KELLOCK: Only a matter of knowing when to be here, that is all.

MR. McRUER: I would be very glad to tell you but the difficulty is in pleasing everybody.

--

-- The Commissioner adjourned at 5.05 P.M. to resume to-morrow, November 13th, 1936, at 10.30 A.M.

---

do have conflicting interests more or less so far as I can. I intended to go right on with the cotton companies as soon as through with this. Mr. Geoffrion is engaged in the Court of Appeal in Montreal and I told him I would not touch the Dominion Textile tomorrow but try and go on with the other cotton companies we can go on with the woollen companies if we have to. I understand they are quite anxious we do not reach some until next week.

MR. MONDOU: Only a matter of hearing seem to be here, that is all.

MR. MONK: I would be very glad to tell you but the difficulty is is pressing everybody.

-- The Commissioner adjourned at 5.05 P.M. to resume at Montreal, Tuesday 11th, 1898, at 10.30 A.M.

ROBT. BRYDIE
CHARTERED STENOGRAPHIC
REPORTER
TORONTO - CANADA

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A. S. Whiteley, Secretary.

NINETIETH DAY

(November 13, 1936)

Robert Brydie,
Official Reporter.

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

Appearances:

J.C.McRuer, K.C.) and E. Beauregard, K.C.)	Commission Counsel
J.P. Lanctot, K.C.) and R.L. Kellock, K.C.)	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C.) Aime Geoffrion, K.C.) and C.T. Ballantyne,)	For Dominion Textile Company.
S.G. Dixon, K.D.)	For Courtaulds, Limited.
L.A. Forsyth, K.C.)	For Canadian Celanese Limited, and Canadian Silk Products Limited.

-- ooo --

J.F. Lamotot, K.C.) and R.L. Kellock, K.C.)	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C.) Aime Geoffrion, K.C.) and)	For Dominion Textile Company.
J.J. Dixon, K.D.)	For Courtaulds, Limited.

Ottawa, Ontario,
November 13th, 1936.

-- The Commission resumed at 10.30 A.M.

ERNEST J. HOWSON, (Recalled),

EXAMINATION CONTINUED BY MR. McRUER:

Q. In further reference to Exhibit 907, I want to deal just for a moment with the last page which deals with Grout's Limited and its subsidiary Valleyfield Silk Mills Limited. This was rather thoroughly gone into at St. Catharines and I do not think we need dwell on it except in regard to three figures. A. Do you want to file the answers?

MR. McRUER: Yes, I want to file the answers to the questionnaire.

THE COMMISSIONER: We are dealing now with Grout's Limited.

MR. McRUER: Yes, my lord.

EXHIBIT 912: Answers to questionnaire by Grout's Limited.

MR. McRUER: Exhibit 913, will be the Annual statements of Grout's Limited from 1925 to 1935.

EXHIBIT 913: Annual Statement from 1925 to 1935 of Grout's Limited.

MR. McRUER: Then the next exhibit will be the replies to the questionnaire by Valleyfield Silk Mills which is a subsidiary of Grout's Limited.

EXHIBIT 914: Replies to questionnaire by Valleyfield Silk Mills Limited.

-- The Commission resumed at 10.30 A.M.

EXAMINATION CONTINUED BY MR. MORTON:

Q. In further reference to Exhibit 907, I want to deal just for a moment with the last page which deals with Crouse's Limited and its subsidiary Valleyfield Silk Mills Limited. This was rather thoroughly gone into at St. Catharines and I do not think we need dwell on it except in regard to three figures. A. Do you want to file the

MR. MORTON: Yes, I want to file the answers to the questionnaire.

THE COMMISSIONER: We are dealing now with Crouse's Limited.

MR. MORTON: Yes, my lord.

EXHIBIT 918: Answers to questionnaire by [illegible].

MR. MORTON: Exhibit 918, will be the annual

EXHIBIT 918: Annual Statement from 1938 to 1939 of Crouse's Limited.

MR. MORTON: Then the next exhibit will be the replies to the questionnaire by Valleyfield Silk Mills which is a subsidiary of Crouse's Limited

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MR. McRUER: And the next Exhibit, Annual statement Valleyfield Silk mills for the years 1934 and 1935.

EXHIBIT 915: Statement for 1934 and 1935, Valleyfield Silk Mills.

MR. McRUER: Q. The common stock equity of Grout's Limited in 1926 was how much? A. $311,626.29.

Q. In 1930? A. $635,421.69.

THE COMMISSIONER: What do you mean by common stock equity?

MR. McRUER: Q. Will you just explain that? A. It is the total investment in the Company after deducting preferred stock and the advances by Grout & Company, the parent company.

THE COMMISSIONER: Q. All the rest of their investment is this common stock? A. Yes.

Q. What is the value of it? A. At the end of 1926, $311,626.29, and 1930, $635,421.69.

MR. McRUER: Q. That does not necessarily mean that they invested that much in the common stock, it may be cumulative profits? A. Yes, it is value behind equity of the common stock at that time.

Q. Irrespective of what was paid for the common stock at the time it is the value that is actually in the company against the common stock if the company were liquidated at that date? A. Yes.

MR. KELLOCK: And those values realised.

MR. McRUER: Yes, if it is realised.

Q. Then in 1930 that common stock equity had a little more than double? A. Yes.

MR. MONTAGUE: And the next Exhibit, annual statement

Valleyfield Milk Co. for the years 1929 and 1930.

ARTHUR HAY: Sworn for the Plaintiffs.

MR. MONTAGUE: Q. The common stock equity of Grenville Limited in 1928 was how much? A. $311,886.32

Q. In 1930? A. $886,421.96.

THE COMMISSIONER: What do you mean by common stock equity?

MR. MONTAGUE: Q. Will you just explain that?

A. It is the total investment in the Company after deducting [illegible]

THE COMMISSIONER: Q. All the rest of their investment is this common stock? A. Yes.

Q. What is the value of it? A. At the end of 1928, $311,886.32, and 1930, $886,421.96.

Q. Irrespective of what was paid for the common stock, it may be commercially profitable? A. Yes, it is valuable, the actual equity of the common stock at that time.

Q. Irrespective of what was paid for the common in the company against the common stock if the company were liquidated at that date? A. Yes.

MR. MONTAGUE: And those values remained.

Q. And then we come from 1930 to 193 5 had increa ed from $635,421.69? A. To $1,090,833.84.

THE COMMISSIONER: Are those figures on this sheet?

MR. McRUER: Yes, see line "Common stock equity" about a third of the way down, under Year 1930-1935.

Q. Then the net revenue applicable to common stock equity is shown about two-thirds of theway down the page. Can you give me the total for the five-year period from 1931 to 1935? A. Of the common stock equity of the revenue?

Q. Of the revenue applicable to common stock? A. From 1926 until when?

Q. 1926 to 1930, inclusive? A. $378,388.62.

Q. And the five-year period from 1931 to 1935? A. $317,829.46.

Q. And you have set out the percentages there? A. Total for the whole period $696,202.98.

Q. Then the next statement I wish to deal with is "Financial summary of the Silk Mills reporting."

THE COMMISSIONER: You mean the same mills?

MR. McRUER: No, those are selected mills. I am quite frank to say in a number of these I have selected mills that have done very well for the purpose of seeing what a mill under good management will do under those circumstances. Then we have dealt with all the mills that have reported in the next statement.

THE COMMISSIONER: It is a compilation, applies to a number of companies.

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Q. And then we come from 1930 to 1938 3 had increased from $635,481.89?

A. To $1,080,885.84.

THE COMMISSIONER: Are those figures on small sheet?

MR. MONDER: Yes, see line "Common stock equity"

Q. Then the net revenue applicable to common stock equity is shown about two-thirds of twenty down the page. Can you give me the total for the five-year period from 1921 to 1925? A. Of the common stock equity of the revenue?

Q. Of the revenue applicable to common stock?

Q. From 1926 until when?

Q. 1926 to 1930, inclusive? A. $378,389.69.

Q. And the five-year period from 1921 to 1925?

A. $317,826.49.

Q. And you have set out the percentages there?

A. Total for the whole period $696,205.05.

Q. Then the next statement I wish to deal with is "Financial summary of the Silk Mills reporting."

THE COMMISSIONER: You mean the same mills?

MR. MONDER: No, those are selected mills. I am quite frank to say in a number of these I have selected mills that have done very well for the purpose of

MR. McRUER: Yes, a number of companies.

MR. KELLOCK: Exhibit 907 covers the best mills in the industry.

MR. McRUER: I won't say the best, the oldest mills in the industry, and when I looked over summary of all mills reporting I was not quite sure that on the averages it showed that they are the best.

MR. KELLOCK: Will the present exhibit you are putting in show any better mills than--

MR. McRUER: You can look at it and see.

THE COMMISSIONER: What do you mean by "better", more profits?

MR.KELLOCK: Yes, done better.

THE COMMISSIONER: I understood you to say a moment ago is one you purposely put---

MR. McRUER: No, they were good substantial mills.

THE COMMISSIONER: Not necessarily the more prosperous.

MR. McRUER: Not necessarily the best. Curiously enough when I ~~am~~ analysed some of the figures last night shown on the next Exhibit, which takes them all in, some of the returns of profit was higher than in some of the mills we showed, average return was higher.

THE COMMISSIONER: This new exhibit is "Summary of all silk mills."

MR. McRUER: All mills that have reported, and I think pretty nearly all have reported.

A.Yes.

EXHIBIT 916: Summary of all silk companies reporting.

MR. MORGEN: Yes, a number of companies.

MR. KELLOCK: Exhibit 907 covers the best mills in the industry.

MR. MORGEN: I won't say the best, the oldest mills in the industry, and when I looked over summary of all mills reporting I was not quite sure that on the average it showed that they are the best.

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MR. MORGEN: You can look at it and see.

THE COMMISSIONER: What do you mean by "better", more profits?

MR. KELLOCK: Yes, done better.

THE COMMISSIONER: I understood you to say a moment ago is one you purposely put---

MR. MORGEN: No, they were good commercial mills.

MR. MORGEN: Not necessarily the best. Curiously enough when I -- analyzed some of the figures last night shown on the next Exhibit, which takes them all in, some of the returns of profit was higher than in some of the mills we showed, average return was higher.

THE COMMISSIONER: This new exhibit is "Summary of all silk mills."

MR. MORGEN: All mills that have reported, and I think nearly nearly all have reported.

A.Yes.

EXHIBIT 916: Summary of all silk companies

Q. Now, this statement that you have prepared contains a "comparative balance sheet summary" on the first page? A. Yes.

Q. Now, there are just one or two figures on that that I want to look at e for a moment. You ha/e one line, "Total capital invested." Now, that is arrived at in the same way as you arrived at it in the other individual mills that we dealt with - that is, eliminating good will? A. No, "Total capital invested" includes good will.

Q. Yes, "Capital employed in the industry" on the third line. That is the figure of the net capital after eliminating outside investment, good will, investments subsidiary companies, etc.? A. Yes,sir.

Q. Again, that is irrespective of where the capital came from. It may have been built up in profits before 1926 or it may not? A. Yes, that is cumulative capital, including issued capital and reserve. The lower group shows how that capital is made up.

Q. So that one cannot compare the figure for 1926 with 1935 in that instance and draw any conclusion from it because there may have been new capital introduced by legitimate investment over that period? A. Yes.

Q. But when we come down to surplus and free reserves ---

MR. KELLOCK: I was wondering what constituted an illegitmate investment.

MR. McRUER: Well,we will not discuss illegitmate

contains a "comparative balance sheet summary" on the

first page?

A. Yes.

Q. Now, there are just one or two figures on that that I want to look at a for a moment. You have one item, "Total capital invested," how, that is arrived at in the same way as you arrived at it in the other individual mills that we dealt with - that is, eliminating outside investments?

A. Yes.

Q. Yes, "Capital employed in the industry" on the third line. That is the figure of the net capital after eliminating outside investment, good will, investments subsidiary companies, etc.?

A. Yes, sir.

Q. Again, that is irrespective of where the capital came from. It may have been built up in profits before 1929 or it may not?

A. Yes, that is cumulative right, including [illegible] reserve. The lower group shows how that capital is made up.

Q. So that one cannot compare the figure for 1929 with 1935 in that instance and draw any conclusion from it because there may have been new capital introduced by legitimate investment [illegible] part[illegible].

Q. But when we come down to surplus and free reserves ---

[illegible] I was referring more particularly to legitimate investment.

things to-day. We will deal with more pleasant ones. Frankly, watered stock andmaking it appear as a balance in the Balance Sheet I think is illegitimate.

Q. Surplus and free reserves in 1926 appeared at $1,632,809.29? A. Yes.

Q. In 1935, on all the mills reporting it had gone to $3,889,697.72? A. Correct.

Q. Between the years 1930 and 1935 there was an increase of about $400,000? A. Yes.

Q. Now then, we come to the next sheet which is a "Profit and Loss summary" and this sheet rather discloses what I mentioned a moment ago, my lord, in regard to the individual companies that we have shown, and we have shown all their history and how they got along. Now, the last figure shows, "Ratio of net profits from operations to capital employed in the industry," in all the mills reporting. Can you tell me what the average ratio of net profits to capital employed is over that ten-year period?

THE COMMISSIONER: Not worked out here?

MR. McRUER: Well, the individual ones are there, my lord.

THE COMMISSIONER: I say, this average you are asking for is not set out here.

MR. McRUER: No, my lord. Merdy a matter of adding them all together and dividing by ten.

THE WITNESS: What is your question again?

Q. The average ratio of net profits from operations

Mr. MORTON: No, my lord. Merely a matter of
arithmetic.

THE CHAIRMAN: What is your question again?

Mr. MORTON: Well, the individual ones are there,
my lord.

THE CHAIRMAN: I say, this average you are asking
for is not set out here.

Mr. MORTON: Not worked out here?

THE CHAIRMAN: No.

Mr. MORTON: Well, the individual ones are there,
in all the mills reporting. Can you tell me what the
average ratio of net profits to capital employed is
over that ten-year period?

THE CHAIRMAN: I say, this average you are asking
for is not set out here.

Mr. MORTON: No, my lord. Merely a matter of
arithmetic.

THE CHAIRMAN: What is your question again?

Mr. MORTON: Well, the individual ones are there,
in all the mills reporting. Can you tell me what the
average ratio of net profits to capital employed is
over that ten-year period?

THE CHAIRMAN: Not worked out here?

Mr. MORTON: Well, the individual ones are there,
my lord.

to capital employed in all these mills for the ten years? A. 8.8%.

Q. And then just to go back for a moment and look at Exhibit 907, and take such a well established company as Belding-Corticelli, what is the average net profit to capital employed on Belding-Corticelli?

A. 7 per cent.

Mr. Kellock: Where do you get that?

THE WITNESS: By averaging the capital, taking the total capital employed and dividing, average it, by dividing by ten, and taking the total revenue employed, averaged, and then taking the percentage of average revenue to the average capital.

Q. That is, the comparable figure to this one?

A. Yes. Not to that one, to the average for the whole industry which I gave you a moment ago.

THE COMMISSIONER: Q. Comparable to 8.8?

A. Yes.

MR. McRUER: Q. The 8.8 and 7% are comparable?

A. Yes. It is a coincidence that this is 8.8, first year of the whole.

Q. I see 1926 was 8.8 year? A. Yes.

Q. And they have gone up and down, so that we have made a study of the affairs of Belding-Corticelli rather carefully, and this gives us the average for all the years.

MR. KELLOCK: What about Associated? Ask the same question in regard to it?

THE COMMISSIONER: Associated Textiles, Louiseville.

THE WITNESS: I will figure it out.

MR. McRUER: There are a lot of things about Associated that probably my friend Mr. Kellock does not know.

MR. KELLOCK: You could have Mr. Howson do it now.

THE WITNESS: I can have Mr. Davidson do it.

MR. McRUER: Associated, cannot give it for the same period because they did not start to operate until 1929 or 1930. I do not think there is much more in this that I want to go into with you in detail, Mr.Howson. It is very comprehensive. If your lordship will turn over several pages there is a statement of "Operating ratios." "Operating ratios" shows in the first place in the first column the percentage the particular mills had of the whole trade? A. Reporting.

Q. Of the whole trade represented by the mills reporting? A. Yes.

MR. McRUER: I think, my lord, if it was just put at the head of the column in these particular years, the number of mills. It is shown but it is not justplain. In 1927 - first is the six, - it is six. In 1928 it is eight. In 1929 it is eight. 1930 it is nine. 1931 it is eleven. 1932 it is twelve. 1933 it is fifteen. 1934 it is sixteen and 1935 it is sixteen. So that the number of mills increased from 1926, which was six, to sixteen mills in 1935.

THE COMMISSIONER: When you say "number of mills,"

THE WITNESS: I will figure it out.

MR. MORGAN: There are a lot of things about

Associated that probably my friend Mr. Kellogg does not

know.

MR. KELLOGG: You could have Mr. Howson do it now.

THE WITNESS: I can have Mr. Davisson do it.

MR. MORGAN: Associated, cannot give it for the entire

period because they did not start to operate until 1923

or 1930. I do not think there is much more in this

that I want to go into with you in detail, Mr. Howson.

It is very comprehensive. If your lordship will turn

over several pages there is a statement of "Operating

ratios." "Operating ratios" means is the first item

is the first column for instance the particular mills

hand of the whole trade? A. Reporting.

Q. Of the whole trade represented by the mills

reporting? A. Yes.

MR. MORGAN: I think, my lord, if it was just put

at the head of the column in these particular years,

the number of mills. It is shown but it is not

important. In 1927 - first is the mix, - it is six.

In 1928 it is eight. In 1929 it is eight. 1930

it is nine. 1931 it is eleven. 1932 it is twelve.

1933 it is fifteen. 1934 it is sixteen and 1935 it is

sixteen. So that the number of mills increased from

1929, which was six, to sixteen mills in 1934.

you mean number of companies?

MR. McRUER: Yes.

THE COMMISSIONER: That includes these subsidiaries?

MR. McRUER: Yes, Valleyfield is shown separate from Grout's. Your lordship will notice in the first column the Belding Corticelli, for instance, in 1926 had 53.7 of the total sales. Grout's had 12.9 of the total sales. Riverside Silk Mills had 17.7 of the total sales. Then we get down to 1935 and Belding-Corticelli has 21.6 of the total sales. Grout's had 6.1 of the total sales.

THE COMMISSIONER: You say Corticelli had 21.6 per cent.?

MR. McRUER: 21.3%. Grout's had 6.1 and Riverside 12.3.

THE COMMISSIONER: 17.5.

MR. McRUER: That is Associated Textiles. They had come on the scene by 1931 and by 1935 had got 17.5 of the total sales.

THE COMMISSIONER: What is the next column?

MR. McRUER: Your lordship will see the key to them on the upper left hand side.

Q. Now, in 1930 or 1929 there were eight companies on this list. In 1935 there were sixteen. Tell me what the sales were in 1929? A. $8,989,635.

Q. In round figures, $9,000,000 practically. In 1935? A. $12,167,087.

Q. So that although the number of companies sharing

Your mean number of companies?

MR. MONDAY: Yes.

[illegible]

[illegible]

Grout's. Your Jordenig will notice in the first col[illegible]
the holding Corticelli, for instance, in 1928 had 38.7
of the total sales. Grout's had 18.9 of the total
sales. Riverside Silk Mills had 17.7 of the total
sales. Then we get down to 1933 and holding-Corticel[illegible]
has 21.8 of the total sales. Grout's had 6.1 of
[illegible].

THE COMMISSIONER: You say Corticelli had 21.8
per cent.?

MR. MONDAY: 21.8%. Grout's had 6.1 and Riverside
14.3.

[illegible]: 17.9.

MR. MONDAY: That is Associated Textiles. They
had come on the scene by 1931 and by 1933 had got 17.5
of the total sales.

THE COMMISSIONER: What is the next column?

MR. MONDAY: Your Jornenig will see the key to the
on the upper left hand side.

Q. Now, in 1930 or 1929 there were eight companies
on the list. In 1933 there were sixteen. Tell me
what the sales were in 1929? A. $30,980,838.

Q. In round figures $30,000,000 practically. In
1933? A. $16,107,027.

the field doubled the sales only increased by a third. Now, turn over to the next page on the Exhibit. You have made a "Comparative Balance sheet Summary" of what you call "Representative companies"?

A. Yes.

Q. And there is only one thing I want to point out on this and that is, that those representative companies in 1926 represent 96% of the total sales of the Companies reporting? A. Yes.

Q. In 1935 they represent 87.8% of the total sales of the companies reporting? A. Yes.

Q. Rather, of the total capital employed in the companies reporting, is that it? A. Yes.

THE COMMISSIONER: How many of those companies are there?

SECRETARY WHITELEY: It is mentioned above there.

THE WITNESS: There are eight of them.

MR. McRUER: Well, they run from four in 1926 to eight in 1935. New companies that came in that were recorded in this class---

THE COMMISSIONER: What class do you say they are?

MR. McRUER: Well, what are called here "Representative companies." The business was divided, 96% of the business was divided among four companies in 1926.

THE WITNESS: And percentage of sales shows on the next sheet.

THE COMMISSIONER: Now we have it that 87% and over

the field doubled the sales only increased by a third.

Now, turn over to the next page on the Exhibit. You have made a "Comparative Balance sheet Summary" of what you call "Representative companies"?

A. Yes.

Q. And there is only one thing I want to point out on this and that is, that those representative companies in 1938 represent 38% of the total sales of the Companies reporting? A. Yes.

Q. In 1939 they represent 37.8% of the total sales of the companies reporting? A. Yes.

Q. Rather, of the total capital employed in the companies reporting, is that it? A. Yes.

THE COMMISSIONER: How many of those companies are there?

SECRETARY MCLENNAN: It is mentioned above there.

THE WITNESS: There are eight of them.

MR. MONDER: Well, they run from four in 1938 to eight in 1939. New companies that came in that were recorded in this class---

THE COMMISSIONER: What class do you say they are?

MR. MONDER: Well, what are called be a "representative companies." The business was divided, 38% of the business was divided among four companies in 1938.

THE WITNESS: And percentage of sales shown on the

is divided among 8.

MR. McRUER: 8 out of 16.

THE WITNESS: I might point out that this group of companies include more than those that had been dealt with individually.

MR. McRUER: That is in the former exhibit 907. We just dealt with four there. There are eight here.

THE COMMISSIONER: Q. Are the whole of those four here? A. Yes, sir - a Associated, Belding-Corticelli, Bruck Silks, and Grout's.

Q. And four others? A. Well, we really dealt with six because two of those are subsidiaries. There are two extra companies in this group - Consolidated Silk Mills and Riverside Silk Mills.

MR. McRUER: Q. Now, turn over to the next page which is "Profit and Loss surplus Summary," and you show there the "Ratio of net profit from operations to capital employed in the industries," down near the foot of the page, starting off with 8.7 in 1926. A. Yes, sir.

Q. Can you tell me what the average over the ten-year period is? A. 10.5%.

Q. So when we take the companies that in 1926 represented 96% and in 1935 87% and a fraction of the total business, their average net profit from operations to capital employed in the industry amounted over ten-year periods to 10.5%? A. Yes.

Q. Now then we come to the last page, my lord,

is divided among 8.

MR. MORDEN: 8 out of 16.

DR. DINNESS: I might point out that this group of companies include more than those that had been dealt with [illegible].

Q. [illegible] that is the Viyella family.

We just dealt with four there. There are eight here.

THE COMMISSIONER: Q. Are the whole of those four here? A. Yes, sir - a Associated, Belding-Corticelli, Brook Bikes, and Orent's.

Q. And four others? A. Well, we really dea with six because two of those are subsidiaries. There are two extra companies in this group - Consolidated Silk Mills and Riverside Silk Mills.

MR. MORDEN: Q. Now, turn over to the next page which is "Profit and Loss surplus Summary," and you show there the "Ratio of net profit from operations to capital employed in the industries," down near the foot of the page, starting off with 8.7 in 1926.

A. Yes, sir.

Q. Can you tell me what the average over the ten-year [illegible] A. Yes.

[illegible] represented 95% and in 1935 87% and a fraction of the total business, their average net profit from operations [illegible] ten-year periods to 10.0%? A. Yes.

which is summary of this last group of companies, which shows the sales, gross profits before depreciation, after depreciation, net profit on sales, total net profit. What was paid in dividends and the balance carried forward to surplus. Now, Mr. Howson I think made a little summary here, I don't know---

THE COMMISSIONER: On the last page.

MR. McRUER: Yes. The capital employed at the beginning of the period plus the capital introduced during the period I have calculated at $6,000,000.

MR. KELLOCK: What is the period?

MR. McRUER: Ten years.

THE COMMISSIONER: That is in respect of these eight companies?

MR. McRUER: Yes, my lord.

THE WITNESS: That is common stock capital you are speaking of now, or total capital, total capital invested?

Q. Start off with the figure "Capital employed at the beginning of the period," and add to it any new money that was introduced as an investment?
A. Well, the capital employed at the end of the first year of the period, was $4,263,482.00 and the additional capital, both -preferred and common stock, at the end of the ~~epi~~period amounted to $1,742,325.00.

Q. In round figures my $6,000,000 is practically right? A. Yes, $6,500,000.

Q. Now, the dividends paid by the Company, preferred

value in money at that last group of companies,
which shows the sales, gross profits before deprecia-
tion, after depreciation, net profit on sales, total
net profit. What was paid in dividends and the
balance carried forward to surplus. Now, Mr. Dowson
I think made a little summary here, I don't know---

THE COMMISSIONER: On the last page.

MR. MONDER: Yes. The capital employed at the beginning of the period plus the capital introduced during the period I have estimated at $6,000,000.

MR. KELLOCK: What is the period?

MR. MONDER: Ten years.

THE COMMISSIONER: That is in respect of these eight companies?

MR. MONDER: Yes, my lord.

THE WITNESS: That is common stock capital you are speaking of now, or total capital, total capital invested?

Q. Start off with the figure "Capital employed at the beginning of the period," and add to it any new money that was introduced as an investment?

A. Well, the capital employed at the end of the first year of the period, was $4,869,482.00 and the additional capital, both preferred and common stock, at the end of the ~~sub~~-period amounted to $1,748,525.00.

Q. In round figures $6,000,000.

A. Yes, $6,800,000.

and common, during that ten-year period amounts to $2,662,275.92? A. Right.

Q. The balance carried to Surplus account at the end of the period amounted to $2,354,727.53?

A. Yes.

Q THE COMMISSIONER: There is something that Mr. Kellock asked for.

MR. McRUER: Did you get that, Mr. Davidson?

MR. DAVIDSON: I think he has just about got it finished there.

(Page 12415 follows)

and common, during that ten-year period amounts to
$[illegible] [illegible].

4. The balance carried to Surplus account at the
end of the period amounted to $2,394,727.537

5

4. Yes.

THE COMMISSIONER: There is something that Mr.
Kellock asked for.

MR. MCRUER: Did you get that, Mr. Davidson?

10 MR. DAVIDSON: I think he has just about got it
finished there.

15

(Page 13413 follows)

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30

Q. Associated, have you got the average ?

A. For the period covered by the statement, 1931 to 1935 ?

Q. 1931 to 1935 ? A. 15.8 per cent.

Q. 15.8 per cent, that is all in regard to the silk, my lord.

THE COMMISSIONER: That is all for the silk ?

MR. McRUER: Yes, my lord.

THE COMMISSIONER: Mr. Kellock, are you going to examine Mr. Howson now about the silk ?

MR. KELLOCK: Yes, my lord.

BY MR. KELLOCK: Q. Mr. Howson, would you be good enough to look at Exhibit 907 ? A. What company is that, Mr. Kellock?

THE COMMISSIONER: That is the summary.

MR. McRUER: That is the individual companies.

MR. KELLOCK: And the first company there that you deal with is Associated.

THE COMMISSIONER: Are you on the first page of it ?

MR. KELLOCK: Yes, my lord, Associated Textiles of Canada ? A. Yes.

Q. And the first figure there is Capital employed in the industry in tye year 1931, and you have a figure of $837,489.92 ? A. Yes.

Q. Can you tell me where you get that ? A. My working papers are downstairs.

Q. I would like to know ? A. We have sent down for them. They will be up in a minute.

Q. While you are getting that, Mr. Howson, you

... for the period covered by the statement, 1931 to 1935 ?

Q. 1931 to 1935 ? A. 15.8 per cent.

15.8 per cent, that is all in regard to the silk, my lord.

THE COMMISSIONER: That is all for the silk ?

MR. [illegible]: Yes, my lord.

THE COMMISSIONER: Mr. Kellock, are you going to examine Mr. Towson now about the silk ?

MR. [illegible]: Yes, my lord.

BY MR. KELLOCK: Q. Mr. Howson, would you be good enough to look at Exhibit 907 ? A. That company is the, Mr. Kellock?

THE COMMISSIONER: That is the company.

MR. KELLOCK: That is the individual companies.

MR. [illegible]: And the first company there that you deal with is Associated.

THE COMMISSIONER: Are you on the first page of it ?

MR. KELLOCK: Yes, my lord, Associated Textiles of Canada ? A. Yes.

Q. And the first figure there is Capital employed in the industry in the year 1931, and you have a figure of $837,489.92 ? A. Yes.

Q. Can you tell me where you got that ? A. My working papers are downstairs.

Q. I would like to know ? A. We have sent down for them. They will be up in a minute.

ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
ORONTO - CANADA

are getting this , Mr. Howson, you start in with the year 1931 with this company, but this company operated during practically all of 1930, did it not ? A. No, I don't think so. I think there was a broken period.

MR. McRUER: Get their questionnaire; have you got the questionnaire of Associated ?

MR. DAVIDSON: I have it here.

BY MR. KELLOCK: Q. You told us in chief that the company --

THE COMMISSIONER: Just a minute . A. It was a broken period from the 1st of February to the 2nd of August.

Q. Which year ? A. 1930; the first full period was the year ending the 31st of July, 1931.

BY MR. KELLOCK: Q. But the company did operate from the 1st of February to the 2nd of August, 1930 ? A. Yes.

BY THE COMMISSIONER: Q. What happened after that, was the fiscal year terminated after the end of July ? A. No, they established a fiscal year period ending July 31st, apparently .

Q. That is what I say; when you say a broken year you mean a broken fiscal year ? A. Yes.

BY MR. KELLOCK: Q. What was the result of the company's operations in 1930 ? A They showed a loss of $30,347.

Q. They showed a loss of how much ? A. $30,347.16.

Q. I see; well now, when you dealt lower down on the page with net profits you ignored them the loss which the company had in 1930 ? A. Yes, because I am not

getting this , Mr. Howson, you start in with the
year 1931 with this company, but this company oper-
ating practically all of 1930, did it not ? A. No,
I don't think so. I think there was a broken period.
MR. WATSON: Get their questionnaire; have you got
the questionnaire of Associated ?
MR. DAVIDSON: I have it here.
BY MR. MERLOCK: Q. You told us in order that the
record —
THE COMMISSIONER: Just a minute . A. It was
a broken period from the last of February to the 2nd of
August.
Q. Which year ? A. 1930; the first full
period was the year ending the 31st of July, 1931.
BY MR. MERLOCK: Q. But the company did operate
from the 1st of February to the 2nd of August, 1930 ?
A. Yes.
BY THE COMMISSIONER: Q. What happened after that,
the fiscal year terminating after the end of July ?
A. No, they established a fiscal year period ending
July 31st, respectively .
Q. That is what I say; when you say a broken year
MR. : Q. What was the result of the
loss of $30,047.
Q. I see; well now, when you dealt lower down on
the page with net profits you ignored them the loss which

dealing with 1930 in this statement at all.

Q. Why not deal with 1930 if we want to get the full picture of the company's operations ? A. Well, the matter can be dealt with, of course, if required.

Q. I was wondering why you did not deal with it, Mr. Howson ? A. Because this is the first year of operation, and it is not a reflection of the company's operations at all because there are always expenses in starting a new company which are not normal to operating periods.

Q. That is exactly what I mean, Mr. Howson. We might find in many of these companies during the period they are getting going they have a good deal of expense, and that is one of the considerations they have to take into consideration for considering the profits which they make in subsequent years. Why was the whole story not set out in dealing with this company ? Was that a matter of instruction again ? A. No, there was no particular reason at all except to give a full operating period in each year.

BY MR. McRUER: Q. There is another reason ? A. There is another point I might mention, that the capital reflects the loss in the preceding year, of course.

BY MR. KELLOCK: Q. Oh yes, but then when you are dealing with profit figures andpercentages -- A. I think it isquite clearly shown exactly what is included here.

Q. Oh yes, I know it shows what is included, but it does not show what is omitted ? A. The

dealing with 1930 in this statement : it all.

Q. Why not deal with 1930 if we want to get the full picture of the company's operations ? A. Well, the matter can be dealt with, of course, if required.

Q. I was wondering why you did not deal with it, Mr. Howson ? A. Because this is the first year of operations at all because there are always expenses in starting a new company which are not normal to operating periods.

Q. That is exactly what I mean, Mr. Howson. We might time it many times somewhere during the period they are getting going they have a good deal of expense, and that is one of the considerations they have to take into consideration for considering the profits which they make in subsequent years. Why was the whole story not set out in dealing with this company ? Was that a matter of instruction again ? A. No, there was no particular reason at all except to give a full operating period in each year.

BY MR. MORLOCK: Q. There is another reason ?

A. There is another point I might mention, that the capital reflects the loss in the preceding years, of course.

BY MR. KELLOCK: Q. Oh yes, but then when you are dealing with profit figures subsequently --

A. I think it includes almost exactly what is included here.

Q. Oh yes, I know it all so what is included, but

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questionnaire shows the whole story.

Q. I know, but I am just dealing with 907.

MR.McRUER: Where does my friend get -- excuse me, where does my friend get -- I don't quite understand where the figure comes from that there was a loss in that year .

THE COMMISSIONER: Mr. Howson gave it.

MR. McRUER: That is not what their annual statement shows that is filed before this Commission. "The net profit for the seven months in review " -- and that was the first seven months of their period, this was the first annual statement -- "after deduction of the estimated income tax to the Government of the Dominion of Canada amounted to $192,720. as shown by Exhibit B of which the following is a summary", and this is Exhibit 232.

MR. KELLOCK: Might I see that please .

BY THE COMMISSIONER: Q. Where did you get your figures, Mr. Howson ? A. From their returns; it was in the profit and loss account.

Q. Well, which are we to go on ?

MR. KELLOCK: Pardon.

THE COMMISSIONER: Which are we to rely on ?

MR.McRUER: There is the first seven months of their statement.

THE COMMISSIONER: Mr. Howson tells me that they have submitted a statement covering this first seven months which shows a loss.

BY MR. McRUER: Q. That is their answer to the questionnaire ? A. Yes.

question answers the whole story.

A. I know, but I am just dealing with 907.

MR.MORLEY: There goes my friend get -- excuse me, where does my friend get -- I don't quite understand where the figure comes from that there was a loss in that year.

THE COMMISSIONER: Mr. Howson gave it.

MR. MORLEY: That is not what their annual statement shows that is filed before this Commission. "The net profit for the seven months in review " -- and that was the first seven months of their period, this was the [illegible] -- "after deducting of the estimated income tax to the Government of the Dominion of Canada amounted to $108,720. as shown by Exhibit D of which the following is a summary", and this is Exhibit [illegible].

MR. KELLOCK: Might I see that please.

BY THE COMMISSIONER: Q. Where did you get your figures, Mr. Howson ? A. From their returns; it was in the profit and loss account.

Q. Well, which are we to go on ?

MR. KELLOCK: Pardon.

THE COMMISSIONER: Which are we to rely on ?

MR.MORLEY: There is the first seven months of their statement.

THE COMMISSIONER: Mr. Howson tells me that they have published a statement covering only five months which shows a loss.

BY MR. [illegible]: Q. That is their answer to the

BY THE COMMISSIONER: Q. A loss of how much ? A. A loss on trading of $30,347.

Q. Well, what are we going to do about it now ?

MR.McRUER: Are we sure that this deals with the first seven months ? According to our evidence which we had I think they started in operation in December, 1929 or 1930.

MR. KELLOCK: No, the ffst of February, 1930.

THE COMMISSIONER: February, 1930 according to what Mr. Howson said.

BY MR McRUR: Q. Did they actually start operations or were they building ? A. I cannot tell you that from this.

Q. This statement runs for seven months which would be from the 1st of December.

THE COMMISSIONER: It seems to me that is what we were told in Louiseville that this company began at the end of 1929.

MR. KELLOCK: I call your lordship's attention to the fact that the statement my friend read from, Exhibit 232 covers the first seven months ending July 31st, 1931, the following year, not the year we are talking about.

MR.McRUER: They gave us no s_tatement then.

THE COMMISSIONER: 1931 ?

MR. KELLOCK: Yes, Exhibit B which my friend referred to clearly sets it out.

MR.McRUER: They must have given us no statement this year, the first year. My recollection is they did not do any business until the fall of 1931.

A. A loss on trading of $30,347.

Q. Well, what are we going to do about it now ?

MR. HOWSON: Are we sure that this deals with the

we had I think they started in operation in December,

1929 or 1930.

MR. KELLOCK: No, the 1st of February, 1930.

what Mr. Howson said.

BY MR. HOWSON: Q. Did they actually start operations or were they building ? A. I cannot tell you that from this.

Q. This statement runs for seven months which would be from the 1st of December.

THE COMMISSIONER: It seems to be that is what we were told in Louisaville that this company began at the end of 1929.

MR. KELLOCK: I call your lordship's attention to the fact that the statement my friend read from, Exhibit 382 covers the first seven months ending July 31st, 1931, the following year, not the year we are dealing about.

THE COMMISSIONER: 1931 ?

MR. KELLOCK: Yes, Exhibit B which my friend so-

MR. McGREGOR: They must have given us no statement

MR. KELLOCK: Your recollection is not in accordance with the evidence.

MR. McRUER: You say it isn't. Now, show me the evidence.

MR. KELLOCK: The questionnaire and your own witness.

MR. McRUER: I am talking about the evidence that was given by Mr. Marx. You make such accusative statements.

MR. KELLOCK: No, don't be so thin-skinned.

MR. McRUER: I am not thin-skinned, but I am getting tired of this sort of evidence.

MR. KELLOCK: It is your own witness.

MR. McRUER: No, it is not my witness. I say according to the evidence we had at Louiseville given by the President of this company.

MR.KELLOCK: You mean that the company did not operate in 1930 ?

MR. McRUER: My recollection is they did not operate until the fall of 1931.

MR. KELLOCK: I am merely pointing out I do not quite understand how that can be so in view of the questionnaire.

THE COMMISSIONER: I thought it was the late fall of 1929 but I may be wrong there.

MR. McRUER: However, I was wrong on this statement, I thought this was dealing with the last seven months of 1931.

MR. KELLOCK: Clearly not.

MR. McRUER: There was something wrong with their

MR. KELLOCK: I am merely pointing out I do not
operate until the fall of 1951.

MR. MORTON: My recollection is they did not
operate in 1950 ?

MR.KELLOCK: You mean that the company did not
by the President of this company.

MR. MORTON: No, it is not my witness. I say
[illegible] evidence we had at Louisville [illegible]
[illegible] of evidence.

MR. KELLOCK: It is your own witness.

MR. MORTON: I am not thin-skinned, but I am getti
[illegible] of evidence.

MR. KELLOCK: No, don't be so thin-skinned.

statements.

was given by Mr. Mertz. You make such conflictive

MR. MORTON: I am talking about the evidence that

MR. KELLOCK: This questionnaire and your own wit-
ness.

evidence.

MR. MORTON: You say it isn't. Now, show me the

MR. KELLOCK: Your questionnaire is not in proper-
ly [illegible] the evidence.

accounting system down there. They have to put in a new accountant to tell them what they did do because their man did not get it right.

THE COMMISSIONER: The company started in October, 1929. Whether that just means organized in that month I do not know.

MR.KELLOCK: Well, Mr. Howson says the questionnaire shows the organization was in December ?

A. No, the incorporation was April 15th, 1929.

THE COMMISSIONER: Mr. Pinatel, he was the General Manager, he said the company started in October, 1929.

MR. KELLOCK: My friend's recollection of the evidence must be wrong.

THE COMMISSIONER: That was my recollection, that it was the fall of 1929 they started.

MR.McRUER: I had the wrong year.

MR.KELLOCK: As long as my friend says I did him no injustice, I am satisfied.

MR. McRUER: It is the spirit you are adopting as though I am trying to distort things. I am not here to distort anything, and it is nearly time I got through with that sort of nonsense and get down to facts.

MR. KELLOCK: That is exactly what I am trying to do.

MR. McRUER: If you had struggled as hard to find out the facts in this industry as I have with as much resistance your patience would be exhausted too.

MR. KELLOCK: I am quite sorry my ffiend is personally upset but I am entirely dealing on a professional basis and I make no accusations against my

accounting system down there. They have to put in a
new accountant to tell them what they did do because
their man did not get it right.

THE COMMISSIONER: The company started in October,
1929. Whether that just means organized in that month
I do not know.

MR. KELLOCK: Well, Mr. Howson says the question
now shows the organization was in December ?

A. No, the incorporation was April 15th, 1929.

THE COMMISSIONER: Mr. Pinsent, he was the General
Manager, he said the company started in October, 1929.

MR. KELLOCK: My friend's recollection of the evi-
dence must be wrong.

THE COMMISSIONER: That was my recollection, that
it was the fall of 1929 they started.

MR. [illegible]: I had the wrong year.

MR. KELLOCK: As long as my friend says I did him
no injustice, I am satisfied.

MR. MORDEN: It is the spirit you are adopting as
though I am trying to distort things. I am not here
to distort anything, and it is nearly time I got
through with this sort of nonsense and get down to
[illegible].

MR. KELLOCK: That is exactly what I am trying to
do.

MR. MORDEN: If you had struggled as hard to find
out the facts in this industry as I have with as much
resistance your patience would be exhausted too.

MR. KELLOCK: I am quite sorry my friend is
personally upset but I am entirely dealing on a pro-

my friend whatsoever. I think my friend ought to know that.

MR. McRUER: All right.

BY MR. KELLOCK: Q. Now, Mr. Howson, are you yet in a position to tell me how the first figure, capital employed in the industry in 1931 is made up ?

THE COMMISSIONER: Yes, he told us that the other day.

MR.KELLOCK: I know, my lord, but the figures I took down do not check with the figures in the exhibit. That is the reason I want to get the particulars. Can you give me the information ? A. What did you say it did not check with ?

Q. The figures I took down as you gave them in chief do not check.

BY THE COMMISSIONER: Q. How was this capital employed in the industry in 1931 made up , preferred stock, common stock, surplus earned -- A. We took the total of the parent liabilities which amount to $444,158 --

BY MR. KELLOCK: Q. What is that ? A. The total of the current assets, I mean, which amounts to $444,158.81.

Q. This is from the questionnaire ? A. Yes, we deduct from that current liabilities of $193,863.87. We add to it --

Q. What result do you get there ? A. That is net working capital of $250,294. We add to it depreciated value of the fixed assets which is $587,194.98.

BY THE COMMISSIONER: Q. How much ?

my friend whatsoever. I think my friend ought to have that.

MR. MORGAN: All right.

BY MR. KELLOGG: Q. Now, Mr. Howson, are you yet in a position to tell me how the first figure, capital employed in the industry in 1931 is made up ?

THE COMMISSIONER: Yes, he told us that the other day.

MR. KELLOGG: I know, my lord, but the figures I took down do not check with the figures in the exhibit. That is the reason I want to get the particulars. Can you give me the information ? A. What did you say it did not check with ?

Q. The figures I took down as you gave them in chief do not check.

BY THE COMMISSIONER: Q. How was this capital employed, common stock, surplus earned -- A. No to $444,159 --

BY MR. KELLOGG: Q. What is that ? A. The total of the current assets, I mean, which amounts to $444,158.81.

Q. This is from the questionnaire ? A. Yes, we add to it --

Q. What result do you get there ? A. That is net working capital of $250,394. We add to it de-

A. $587,194.98, and that gives you a total of $857,489.92.

BY MR. KELLOCK: Q. $857,489.92 ? A. That is the basis on which the capital --

Q. The appreciated value; now, have you included in the case of this company any goodwill in that figure of capital employed in the industry ?

THE COMMISSIONER: What is that, Mr. Kellock, have you included --

MR. KELLOCK: Any goodwill in the case of this company in that figure ?

THE COMMISSIONER: In the capital employed ?

MR. KELLOCK: Yes, my lord. A. There is no goodwill disclosed.

Q. So there is none in the case of that company, all right. Now, this statement, Mr. Howson, with regard to the Associated company shows that the profits have been falling off, the gross profits have been falling off each year since the inception ? A. What is that ?

Q. I say the statement shows, does it not, that the gross profits of the company have been falling off since the inception of the company ? A. No.

Q. The percentages ? A. The percentages, yes, not the amounts.

Q. Oh no, but the whole purpose of your statement here, isn't it, is the relation -- is to show the relation between these various items that you call various things, profits, to capital employed in the industry and to sales, isn't that it ? A. I just

A. $857,164.98, and that gives you a total of $857,164.98.

BY MR. MELLOCK: Q. $857,489.92 ? A. That is the basis on which the capital --

Q. The depreciated value; now, have you included in the case of this company any goodwill in that figure of capital employed in the industry ?

THE CHAIRMAN: What is that, Mr. Mellock. Have you finished --

MR. MELLOCK: Any goodwill in the case of this company in that figure ?

THE CHAIRMAN: In the capital employed ?

A. Yes, my lord. Q. There is no goodwill disclosed.

Q. So there is none in the case of that company, all right. Now, this statement, Mr. Howson, with regard to the Associated company shows that the profits have been falling off, the gross profits have been [illegible] is that ?

Q. I say the statement shows, does it not that since the inception of the company ? A. No.

Q. The percentage ? A. The percentages, yes, but the amounts.

A. Oh no, but the whole purpose of your statement here, isn't it, is the relation -- is to show the relation between these various items that you will

wanted to be clear on what you were talking about, figures or percentages.

A. No, I am talking about percentages.

THE COMMISSIONER: Just a minute, allow me to interject here on that question we discussed a while ago about when the company began. Here is what Mr. Pinatel said:

"Q. How long have you been General Manager ?

A. Since we started the plant.

Q. And when did you start up ? A. 1929.

Q. Pardon ? A. 1929.

Q. At what time in 1929 ? A. In October.

Q. You started up in October, 1929 ? A. Yes."

BY MR. KELLOCK: Q. Then, Mr. Howson, if we have the whole story we would have the story not from February, 1930, but from October, 1929 ? A. As far as I know --

THE COMMISSIONER: We must take their questionnaire ? A. As far as I am concerned that is the whole story because that is all that has been submitted to me and it indicates operations started in February.

BY MR. KELLOCK: Q. Except that your exhibit here does not go back to the beginning of the information you have ? A. This exhibit ?

Q. Yes? A. No.

THE COMMISSIONER: Well, of course, whether this man had to correct himself later, I don't know. That is my recollection of when they began operating, some time in the fall of 1929, and then stopped a while and started again.

wanted to be clear on what you were talking about,
figures or percentages.

A. No, I am talking about percentages.

THE COMMISSIONER: Just a minute, allow me to

Pinetel said:

"Q. How long have you been General Manager?

A. Since we started the plant.

Q. And when did you start up? A. 1929.

Q. [illegible] A. 1929.

Q. At what time in 1929? A. In October.

Q. You started up in October, 1929? A. Yes.

BY MR. KELLOCK: Q. Then, Mr. Howson, if we have

February, 1930, but from October, 1929? A. As far

THE COMMISSIONER: We must take their question-

mine? A. As far as I am concerned that is the
whole story because that is all that has been submitted
to me and it indicates operations started in February.

BY MR. KELLOCK: Q. Except that your exhibit here

A. This exhibit?

Q. Yes? A. No.

THE COMMISSIONER: Well, of course, whether this

MR. McRUER: Yes, that is it. There is nothing in the way of a financial statement. There are two financial statements for the 31st of July, 1931 which were the first financial statements they gave us, and there is nothing to indicate the earlier history than those financial statements show. I do remember they said there was some difficulty about their accountant, that he got things all balled up, and they changed their accountant, and there is a complete review of the situation by Arthur Young & Company, Accountants. I think they were called in to try to straighten their affairs out. That was what the evidence was so if there is some confusion in the accounting in their earlier history we can forgive them.

BY MR. KELLOCK: Mr. Howson, do you suggest there is anything wrong with the information the company gave you in this questionnaire for the period in question, that is February to July, 1930, that there was a loss ? A. I haven't investigated their accounts. I am accepting their questionnaire.

MR. McRUER: You see what this accountant says is sufficient tests were made of the operations of the company for the seven months ended July 31, 1931, to satisfy ourselves as to the substantial accuracy thereof.

MR. KELLOCK: That is July, 1931 ?

MR. McRUER: Yes, and that seems to be as far as this man went back here who was engaged purposely to try to straighten them out.

MR. KELLOCK: He has not covered the period ?

MR. McRUER: He was engaged to straighten them out.

MR. MORGAN: Yes, that is it. There is nothing in the way of a financial statement. There are two financial statements for the 31st of July, 1931 which were the first financial statements they gave us, and there is nothing to invite to the auditor history then those financial statements show. I do remember they said there was some difficulty about their accountant, that he got things all balled up, and they changed their accountant, and there is a complete review of the situation by Arthur Young & Company, Accountants. I think they were called in to try to straighten their affairs out. That was what the evidence was as if there is some confusion in the accounting in their earlier history we can forgive them.

[illegible]

[illegible] any more in this questionnaire for the period in question, that is February to July, 1930, that there was a loss ?

A. I haven't investigated their [illegible].

MR. MORGAN: You see what this accountant says is sufficient tests were made of the operations of the company for the seven months ended July 31, 1931. So satisfy ourselves as to the substantial accuracy there-of.

MR. KELLOCK: That is July, 1931 ?

MR. MORGAN: Yes, and that seems to be as far as

He gave the history of the company and the receipt of the $60,000. and all that.

MR. KELLOCK: I am going to take the evidence, and I think the Commissioner surely must take the evidence of the witness in the box.

MR.McRUER: I am not asking that he do anything else.

BY THE COMMISSIONER: Q. As far as I understand it Mr. Howson is giving his evidence based on the answers of this company to the questionnaire. What is their answer as to when they began ? A. They say quite clearly here the first operating period is from the 1st of February 1930 to the 2nd of August, 1930. They have inked it in right at the top of the period.

BY MR. KELLOCK: Q. And we have not got it in exhibit 907 ? A. No.

THE COMMISSIONER: Yes, Mr. Pinatel did correct the evidence I read a while ago later on. He says "Production was started in April, 1930". He began by saying they started in October, 1929.

MR. KELLOCK: We have it, my lord, that apparently they made a loss of $30,000. up until the end of July, 1930 ? A. What is that ?

Q. I say we have it they made a loss up until the end of July, 1930, of $30,000. ? A. Yes, they made a loss on trading. I noticed in turning over the pages there were some other adjustments of various kinds they through and the actual amount charged to surplus account was $43,000.

Q. Their loss was increased $43,000.? A. Yes.

the $60,000, and all that.

MR. KNILOCK: I am going to take the evidence, and think the Government merely must take the evidence of the witness in the box.

BY THE COMMISSIONER: Q. As far as I understand it Mr. Howson is giving his evidence based on the answers of this company to the questionnaire. What is the answer as to when they began ?

A. They say quite clearly here the first examination [illegible] the 1st of February 1930 in the 2nd of August, 1929. They have indeed it in right at the top of the section.

BY MR. KNILOCK: Q. And we have not got it in exhibit 104 ?

THE COMMISSIONER: Yes, Mr. Pinsent did observe the evidence I read a while ago later on. He says "Production was started in April, 1930". He began by saying they started in October, 1929.

MR. KNILOCK: We have it, my lord, that apparently they made a loss of $30,000. up until the end of July, 1930 ? A. What is that ?

Q. I say we have it they made a loss up until the end of July, 1930, of $30,000. ? A. Yes, they [illegible] I have no trading. I noticed in looking over the [illegible] was $45,000.

Q. For that period ? A. Yes.

BY MR. McRUER: Q. What did their sales amount to during that period ? A. $167,500.

BY MR. KELLOCK: Q. Then, this statement you prepared with regard to the company does show that this percentage of gross profits to sales both before and after depreciation is progressively going down since the inception of the company's business? A. Yes, that is correct.

Q. And that the net profit, the percentage of net profit to capital employed is at its lowest point in the year 1935, which is the lowest year which we have ? A. That is right.

Q. Mr. Howson, in Exhibit 907 how did you come to select these particular companies ? A. In this group ?

Q. Yes ? A. They were the companies that were examined.

Q. How do you mean ? A. By the Commission, evidence, special evidence was given in connection with them.

Q. The Commission did not specially examine the Bruck Silk Company, did it ? A. I think there was a hearing for the Bruck, was there not ?

MR.McRUER: No.

BY MR. KELLOCK: Q. It must have been on some other basis; what was the basis ? A. That was the basis, I thought the Bruck Silk Company was examined.

Q. No, it was not.

THE COMMISSIONER: We heard about them, but we did

Q. For that period ? A. Yes.

BY MR. MONTGOMERY: Q. What did their sales amount to during that period ? A. $1,247,500.

BY Mr. KNITTOCK: Q. Then, this statement you prepared with regard to the company does show that this corporation of great profits as sales kept before and after depreciation is progressively going down since the inception of the company's business? A. Yes, that is correct.

Q. And that the net profit, the percentage of net profit to capital employed is at its lowest point in the year 1898, which is the lowest year which we have A. That is right.

Q. Mr. Bowson, in Exhibit 107 how did you come to select these particular companies ? A. In this group ?

Q. Yes ? A. They were

Q. How do you mean ? A. By the Commission, evidence, special evidence was given in connection with them.

Q. The Commission did not specially examine the Brook Silk Company, did it ? A. I think there was a hearing for the Brook, was there not ?

MR. MONTGOMERY: No.

BY MR. KNITTOCK: Q. It must have been on some other basis; what was the basis ? A. That was the basis. I thought the Brook Silk Company was examined.

Q. No, it was not.

THE CHAIRMAN: He heard about them, but we

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not examine them.

THE WITNESS: We gave Mr. MacRuer a memorandum of them.

BY MR. KELLOCK: Q. Would you agree with me, Mr. Howson, that these particular companies show the best record in the industry ? A. I don't know that they do.

Q. Can you point to any other company reporting that has done any better than these companies ? A. I think Riverside Silk Company is probably as good as Grouts if not better during that period, and it is not included in that group. It is included amongst the representative companies. The Consolidated Silk Mills for the period in which it operated was very successful, more so than --

Q. Riverside Silk Mills, Mr. Howson, what kind of a business does it carry on? A. I think they spin and weave.

Q. Isn't their business largely throwing ?
A. I don't know.

Q. Grouts Limited do no throwing whatsoever , only weaving ? A. I cannot answer you on that question at all in regard to any of those companies because I made no investigation of what their activities were.

Q. Then, Mr. Howson, you would agree with me that the result which the company would get in carrying on a business consisting in large part in throwing and in part of weaving might well be very different from the result a company would get confining its attention entirely to weaving ? A. Well, I don't think I

can answer that question.

Q. You don't know ? A. No, I really don't know.

Q. A company throwing silk on commission would not be in the same kind of business at all as a company weaving fabrics ?

THE COMMISSIONER: On commission for weavers ?

MR. KELLOCK: Yes, my lord.

THE WITNESS: That is right.

THE COMMISSIONER: What company do you refer to ?

MR. KELLOCK: Riverside, my lord, and I am instructed that the Riverside Company throws much more for other weavers than it itself weaves ? A. I cannot answer that question.

Q. You have got Belding-Corticelli in this group? A. Yes.

Q. Have you looked into the kind of business that company carries on ? A. Not in any particular degree; I just have a general idea of what they do.

Q. Now, I am instructed, Mr. Howson, and I want to ask you a question about it, that that company manufactures braids the raw material for which would be cotton, tapes, again cotton, shoe laces, again cotton, elastic, artificial silk and cotton ribbons, artificial silk and silk, silk threads, cotton threads, hosiery and needlecraft, and the company also jobs and wholesales needles, embroidery hoops, tapestries, dress silks, cotton threads, knitting books, angora yarn and knitting pins. You have not looked into that ? A. No, I do not know what they manufacture except in a general way.

THE COMMISSIONER: I think we had some evidence of Mr. MacDougall in Montreal about that.

MR. McRUER: They claim they are meeting opposition in silks and rayons and things like that.

MR. KELLOCK: Please, Mr. McRuer, let us not get irreverent -- I mean irrelevant .

MR McRUER: I hope I am not irreverent.

THE COMMISSIONER: According to the evidence what are they substantially, a silk company ?

MR. KELLOCK: No, my instructions are they are 20 per cent approximately a silk company, and Mr. Howson, if my instructions are correct the Belding-Corticelli Company in marketing the major portion of its products market directly to the retail trade. Now, in that event their expense for distribution must be vastly higher than a company that merely weaves silk and supplies the wholesale trade ? A. Yes, but their margin of profit is correspondingly higher.

Q. It would have to be higher; therefore, you cannot compare the margin of profit of that company to the margin of profit which a purely silk weaving company obtains ? A. That is why we show different percentages. You cannot possibly get a group of companies absolutely uniform. In this classification we followed the classification which was established by the Price Spreads Commission so you will have to blame Major Nash more or less for that.

Q. That is just the point, Mr.Howson, I am instructed that you have -- insofar as the Belding-Corticelli was concerned it was put in an entirely different group

THE COMMISSIONER: I think we had some evidence of Mr. MacDougall in Montreal about that.

MR. MORK: They claim they are meeting opposition in silks and rayons and things like that.

MR. KNOCK: Please, Mr. Mosher, let us not intervene -- I mean irrelevant.

MR. MORK: I hope I am not intervening.

THE COMMISSIONER: According to the evidence what are they substantially, a silk company?

MR. KNOCK: No, my instructions are they are 80 per cent approximately a silk company, and Mr. Bowen, if my instructions are correct the Sterling-Portiselli Company in marketing the major portion of its products market directly to the retail trade. Now, in that event their expense for distribution must be vastly higher than a company that merely weaves silk and supplies the wholesale trade? A. Yes, but their margin of profit is correspondingly higher.

(.. It would have to be higher; therefore, you cannot compare the margin of profit of that company to the margin of profit which a purely silk weaving company obtains? A. That is why we show different percentages. You can not possibly get a group of companies absolutely uniform. In this classification we followed the classification which was established by the Trade Commission as you will have to blame Major Nash more or less for that.

Q. That is just the point, Mr. Bowen, I am instructed that you have -- Inasfar as the Sterling-Portiselli

from these other companies ? A. I don't think so, I think it was in amongst the silk group.

Q. Now, if you look up the evidence, I am instructed you are wrong ? A. It certainly was not put in the cotton group.

Q. In any event, Mr. Howson, what I want to ask you is do you think a company of that kind is comparable from the standpoint of the gross profit which it must ask for, from the standpoint of the selling expense which it is under to a company which confines itself to weaving silk and selling to the wholesale trade? A. No, there would be a difference, there is no doubt it, in regard to gross profit. It would be comparable on a net profit basis.

THE COMMISSIONER: You are talking of gross profit ?

MR. KELLOCK: I am talking about gross profit.

THE COMMISSIONER: You must be because when you get down to net profit after everything is paid then it does not matter what your particular line is.

BY MR. KELLOCK: Q. And for the purpose of comparing wages with either gross or net profits, as my friend did in examining you in connection with some of these companies, you would get a much larger wage bill in connection with a silk weaving company that did its own dyeing , as against its sales .

MR. McRUER: Get a larger wage bill ?

MR. KELLOCK: Than in the case of a company which does not do its own dyeing but sends the fabric out for dyeing to a dye house ? A. You mean

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from those other companies ? A. I don't think

so. I think it was in amongst the silk group.

Q. Now, if you look up the evidence, I am instru-

ted you are wrong ? A. It certainly was no

[illegible]

Q. In any event, Mr. Howson, what I want to ask

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it does not matter what your particular line is.

BY MR. KELLOCK: Q. And for the purpose of com-

paring wages with either gross or net profits, as my

[illegible]

[illegible]

did its own dyeing , as against its sales ,

MR. MORDEN: Get a longer wage bill ?

MR. KELLOCK: [illegible]

depending on the accounting procedure. If they charge dyeing to the cost of the merchandise and add nothing to wages --

Q. It would not be a proper thing for a company which has its fabric dyed outside to charge that to wages; it did not pay the wages ? A. No.

Q. All right.

MR. McRUER: My criticism of that company, of the company that had a very low wage bill compared to its net profit, that company did its own dyeing.

THE COMMISSIONER: What company was that ?

MR. McRUER: That was Associated Textiles.

MR. KELLOCK: I am talking about comparing these companies with one another. Mr. Howson, in the case of Associated can you give me the net profit of the company for the period that you have shown on the exhibit here ? Did you give that to my friend ?
A. The total, you mean ?

Q. Yes, you only did it for a couple of years, Mr. Howson; can you give me the net profit ? A. I think I gave the figure.

Q. You only dealt with it for two years. Can you give it to me year by year ? A. I gave the figure $573,249.76.

Q. Is that before or after depreciation ?
A. That is after depreciation.

Q. Is it before or after Income Tax ? A. After Income Tax as well.

MR. McRUER: It is the sum of the last line and to that there is $110,600. I have added that goes to

depending on the accounting procedure. If they charge
dyeing to the cost of the merchandise and add nothing
to wages --

. It would not be a proper thing for a company
wages; it did not pay the wages ? A. No.

. All right.

MR. MORROW: My criticism of that company, of the
net profit, that company did its own dyeing.

MR. MORROW: That was Associated Textiles.

MR. MORLOCK: I am talking about comparing three companies with one another. Mr. Howson, in the case of Associated can you give me the net profit of the company for the period that you have shown on the

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. Yes. Roughly did it for a couple of years, Mr. Howson; can you give me the net profit ? A. I think I gave the figure.

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. Is it before or after Income Tax ? A. After Income Tax as well.

MR. MORLOCK: It is the sum of the last line and

the parent company for so-called supervision.

MR.KELLOCK: There is something wrong with that because my arithmetic does not make that. If we take the figure you have in the last line for the year 1931 -- A. I beg your pardon, this is the total earnings of the company in the period up to 1935.

Q. What is ? A. This figure I am talking about now.

Q. $573,249.? A. Yes, and reflects the loss in that broken period at the beginning.

BY THE COMMISSIONER: Q. These are the total earnings? Is that what you say ? A. These are the total earnings up to July 31st, 1935. It is not the total of these figures.

Q. The total of these figures is greater ? A. Yes.

Q. The net profits after income taxes are paid, and that is a greater figure than the one you have just told us ? A. Yes, because the one I have just given to Mr. Kellock reflects the loss on the first period. That is the total net earnings for the period from the time the company started.

Q. How do you make the total earnings less than the net profits ? A. Because there was a loss in the first period to deduct from these profits.

Q. That makes all that difference, does it ? A. $43,000. I think is the difference.

Q. I do not understand it yet. You have net profits here beginning in 1931 which amount to a very considerable amount, maybe $800,000. or more net profits ?

the parent company for so-called amortization.

MR.MILLOCK: There is something wrong with that because my arithmetic does not make that. If we have the figure you have in the last line for the year 1931 -- . I beg your pardon, this is the total earnings of the company in the period up to 1935.

Q. What is ? A. This figure I am talking about now.

. $572,849.? A. Yes, and reflects the loss in that broken period at the beginning.

BY THE COMMISSIONER: Q. These are the total earnings? Is that what you say ? A. Those are the total earnings up to July 31st, 1935. It is not the total of these figures.

Q. The total of these figures is greater ?

A. Yes.

Q. The net profits after income taxes are put, as that is a greater figure than the one you have just given us ? A. Yes, because the one I have just given to Mr. Kellock reflects the loss on the first period. That is the total net earnings for the period from the time the company started.

Q. How do you make the total earnings less than the net profits ? A. Because there was a loss in the first period to deduct from these profits.

Q. That makes all that difference, does it ?

A. $43,000. I think is the difference.

Q. I do not understand it yet. You have not profits here beginning in 1931 which amount to a very con-

MR. McRUER: There is something wrong there, Mr. Howson, because these figures here of net profits come to a great deal more than $606,000.

THE COMMISSIONER: Yes, you asked Mr. Howson to give you the total of these figures and he gave us another figure. I did not notice at the time. He gave us $573,449. but that is not it at all, that is something else because these net profits added together amount to much more than that.

SECRETARY WHITELEY: The figure he gave is $683,849.

MR. McRUER: Yes.

THE COMMISSIONER: No, that includes $110,600. for supervision. Have you added these figures ?

MR.KELLOCK: The amount is $764,666.

THE COMMISSIONER: I thought it would be about that.

MR.McRUER: How much ?

MR. KELLOCK: $764.666.

THE COMMISSIONER: That is net profits after paying income tax ?

MR. KELLOCK: Yes.

THE COMMISSIONER: Well, we will adjourn for a few minutes.

-- The Commission adjourned for a short recess.

Page 12435 follows.

-- The Commission adjourned for a short recess.

Page 1445 follows.

-- On resuming.

BY MR. KELLOCK: Q. Have you been able to straighten that out, Mr. Howson? A. The figure I gave was the net amount credited to surplus account up to July 31, 1935, from the inception of the company.

BY THE COMMISSIONER: Q. How much is that? A. $683,849.26.

Q. That is not the sum of these net profits? A. No.

Q. What is it then? A. That is the total net profits from the time the company started.

Q. Oh it goes back further? A. It goes back to the six months prior.

Q. It is less than this? A. It is less than that because it takes in the net loss, and they also charge what they call an item of organization and development expense.

BY MR. McRUER: Q. How much was that? A. $36,000.

Q. They did not credit the $60,000 they got to assist them to start? A. That was also credited to surplus account.

BY THE COMMISSIONER: Q. Was it?it

A. Yes, in addition to the $683,000. That is the result of their operations. Then in addition they credited the $60,000.

Q. You counted it in as part of their working capital? A. Yes, and the total profits for this period is $763,669.41.

BY MR. McRUER: Q. I want to understand this.

— by reading.

BY MR. RUDICOFF: Q. Have you been able to straighten that out, Mr. Morgan? A. The figure I gave was the net amount credited to surplus account as to July 31, 1938, from the inception of the project.

BY THE COMMISSIONER: Q. How much is that?

A. $606,849.20.

Q. That is not the sum of those not profits?

A. No.

Q. What is it then? A. That is the total net profits from the time the company started.

Q. Did it ever have a letter? A. It goes back to the six months period.

Q. It is less than this? A. It is less than that because it does in the net loss, and they also charge what they call as item of depreciation and development expense.

BY MR. RUDICOFF: Q. How much was the?

A. $56,000.

Q. They did not credit the $60,000 they got to assist them to start? A. That was also credited to surplus account.

BY THE COMMISSIONER: Q. Was it?

A. Yes, in addition to the $606,000. That is the result of their operations. Then in addition they credited the $60,000.

Q. You counted it in as part of their working capital? A. Yes, and the total profit for this period is $756,049.41.

BY MR. RUDICOFF: Q. I want to understand this.

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In the profits for the earlier period or the loss for the earlier period, was that after the $60,000 was credited, or independent of that? A. No, independently.

Q. Independently, so the $60,000 they got from the town of Louiseville would take care of any organization loss they had prior to the commencement of your statements? A. The loss of $43,000, and the charge they put through for organization and development expenses, $36,000 -- that would be $79,000, as against $60,000.

Q. So your statement for 1931 would not be very far out!

BY MR. KELLOCK: Q. Surely when we are trying to find out the result of the operations, you are not going to add in a municipal bonus? A. No., that is not added in here.

Q. I do not quite follow you yet. You say the amount added to surplus up to July 31, 1935, was $683,849.26. Is that right? A. And the $60,000.

Q. Well, leave that out. A. All right.

Q. And that the total net profits as shown on Exhibit 709 is $763,669? A. Yes.

Q. There is a difference there of $79,820. A. Yes, that represents the $43,000 loss and the $36,000 for organization and development charges.

Q. Was the $43,000 a loss on trading? A. For the six months' period.

Q. And the $36,000 was an out of pocket disbursement? A. I presume so. I do not know

in the profits for the earlier period or the loss for the earlier period, was that after the $60,000 was credited, or independent of that? A. No, independently.

Q. Independently, so the $60,000 they got from the town of Dalhousie would take care of any over-valuation loss they had prior to the commencement of your arrangements? A. The loss of $45,000, and the charge they put through for organization and development expenses, $15,000 -- that would be $75,000, as against $60,000.

Q. So your arrangement for 1951 would not be very far out.

Mr. Ambrook: Q. Surely when we are trying to find out the result of the operations, you are not going to add in a municipal bonus? A. No, that is not added in here.

Q. I do not quite follow you yet. You say the amount added to surplus up to July 31, 1953, was $688,849.36. Is that right? A. And the $[illegible],

Q. Well, leave that out. A. All right.

Q. And that the total net profits as shown on Exhibit 70? is $750,650? A. Yes.

Q. There is a difference there of $19,850.

A. Yes, that represents the $45,000 loss and the $26,000 for organization and development charges.

Q. Was the $45,000 a loss on trading?

A. For the six months' period.

Q. And the $25,000 was an out of pocket disbursement? A. I presume so. I do not know

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Howson

what would be the source of it. They charged it under the heading of organization and development.

Q. It is really a charge against profits -- A. Yes.

Q. And in your Exhibit 709, $79,820 is not included anywhere? A. No. Well, I should not say that altogether. It is not included in the profits. It is deducted from capital.

Q. Deducted from capital? A. Yes.

Q. Then it is out altogether? A. Yes.

Q. Well then, the actual net profit in the period is $683,849? A. Well, the actual net profit from trading was $720,000, and if you deduct the $36,000 for organization and development it would be $683,000.

Q. All right. What were the wages paid in this period? A. You mean from the start to the finish?

Q. Yes. A. $1,836,720.

BY THE COMMISSIONER: Q. What period are you referring to now? A. From the inception up to July 1935 (?). As they are shown on this questionnaire, they do not quite agree with the figures which Mr. McRuer has in previous exhibits. There may be some wages in some of these other expense accounts, you see.

BY MR. KELLOCK: Q. Which is the larger figure? A. I do not know.

MR. McRUER: The one I have.

BY MR. KELLOCK: Q. I will be satisfied with your smaller figure, Mr. Howson, and that is about three times the profits in the same period?

what would be the source of it. They charged it under the heading of organization and development.

Q. It is really a charge against profits --

A. Yes.

Q. And in your Exhibit 709, $75,880 is not included anywhere? A. No. Well, I should not say that altogether. It is not included in the profits. It is deducted from capital.

Q. Deducted from capital? A. Yes.

Q. Then it is over altogether? A. Yes.

Q. Well then, the actual net profit in the period is $656,849 ? A. Well, the actual net profit from trading was $750,000, and if you deduct the $86,000 for organization and development it would be $656,000.

Q. All right. What were the wages paid in this period? A. You mean from the start to the finish?

Q. Yes. A. $1,886,720.

BY THE COMMISSIONER: Q. What period are you referring to now? A. From the inception up to July 1925 (?). As they are shown on this questionnaire, they do not quite agree with the figures which Mr. McPhee has in previous exhibits. There may be some wages in some of these other expenses accounts, you see.

BY MR. KERLOCK: Q. Which is the larger figure?

A. I do not know.

MR. MCPHEE: The one I have.

BY MR. KERLOCK: Q. I will be satisfied with your smaller figure, Mr. Howson, and that is about three times the profits in the same period?

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A. A little less.

MR. McRUER: That is after taking out all supervision and management salaries, and so on?

THE WITNESS: These are mill wages.

MR. McRUER: I am taking your profits, though.

THE WITNESS: Oh yes.

BY MR. KELLOCK: Q. And if you add the other salaries and wages, the result would be more than three times the net profit? A. If I add the other salaries and wages?

Q. Yes. You say that the figure for wages that you gave me is only mill wages. A. Yes.

Q. If you add the superintendents' and office salaries--

THE COMMISSIONER: And executive salaries?

MR. KELLOCK: No, just office.

THE COMMISSIONER: Where are you drawing the line? Do you include such salaries as Mr. Marx?

MR. KELLOCK: No.

THE COMMISSIONER: What do you include?

MR. KELLOCK: Just office salaries and superintendents' outside of executive salaries.

THE COMMISSIONER: The general manager's salary?

MR. KELLOCK: I think Marx is the general manager.

THE COMMISSIONER: No.

BY MR. KELLOCK: Q. I am satisfied to put it this way, Mr. Howson, that if you add the superintendents' and office salaries outside of the senior executive officials, you would have a figure that would bring the wages and salaries paid up to more than three times the net profit ? A. Yes, I think so.

A. a little less.

MR. MORROW: That is after taking out all depreciation and management salaries, and so on?

MR. MORROW: I am taking your profits, though.

THE WITNESS: Oh yes.

BY MR. MORROW: Q. And if you add the other salaries and wages, the result would be more than three times the net profit? A. If I add the

Q. Yes. You say that the figure for wages that you gave me is only mill wages. A. Yes.

Q. If you add the superintendents' and office salaries--

THE COMMISSIONER: And executive salaries

MR. MORROW: No, just office.

THE COMMISSIONER: Where are you taking the line? Do you include such salaries as Mr. Mann?

MR. MORROW: No.

THE COMMISSIONER: What do you include?

MR. MORROW: Just office salaries and superintendents' outside of executive salaries.

THE COMMISSIONER: The general manager's salary?

MR. MORROW: I think Mann is the general manager.

BY MR. MORROW: Q. I am getting tired to put it this way, Mr. Mann. What if you add the depreciation, office salaries outside of the mills, executive office, You would have a figure that would bring the wages and salaries paid up to more than three times the net profit? A. Yes, I think so.

Q. Now can you give me the amount of income tax that was paid to the Dominion government in the period? A. $132,916.

Q. So that the result of the investment of $726,000 in this company some time in 1929 or 1930 has brought about the payment of wages of $1,836,720 and Dominion income tax of $132,916, as against net profits of $683,849. Now I want to ask you, not particularly in connection with this company for the moment, in regard to the question of depreciation, It is not correct to say, is it, that depreciation which a company sets up from year to year is a return of capital?

THE COMMISSIONER: What is that?

BY MR. KILLOCK: Q. It is not correct to say that depreciation which a company sets up from year to year and charges to profits, or is to charge whether there are profits or not, is a return of capital? A. It is theoretically a replacement of capital.

Q. It is a replacement of capital?

MR. McRUER: Theoretically.

BY THE COMMISSIONER: Q. It restores your capital to where it was before you began. Is that right? A. Yes.

Q. It keeps your assets going.

BY MR. KILLOCK: Q. If a company does not make provision for depreciation there is going to come a time when it will have lost its capital assets; is that right? The machinery wears out? A. It might not be worth as much when they are through their operations as when they started, through wear and

Q. Now can you give me the amount of income tax that was paid to the Dominion government in the period? A. $172,918.

Q. So that the result of the investment of $726,000 in this company some time in 1928 or 1930 has brought about the payment of wages of $1,896,720 and Dominion income tax of $172,918, on combined net profits of $682,849. Now I want to ask you, not particularly in connection with this company for the moment, in regard to the question of depreciation. It is not correct to say, is it, that depreciation which a company sets up from year to year is a return of capital?

THE COMMISSIONER: What is that?

BY MR. MACLOCK: Q. It is not correct to say that depreciation which a company sets up from year to year and charges to profits, or is to charge whether there are profits or not, is a return of capital? A. It is theoretically a replacement of capital.

Q. It is a replacement of capital?

MR. McPHERSON: Theoretically.

BY THE COMMISSIONER: Q. It restores your capital to where it was before you began. Is that right?

A. Yes.

Q. It keeps your assets going.

BY MR. MACLOCK: Q. If a company does not make provision for depreciation there is going to come a time when it will have lost its capital assets; is that right? The machinery wears out? A. It might not be worth as much when they are through their operations as when they started, through wear

tear.

Q. There comes a time when machinery wears out is that right? A. Yes.

THE COMMISSIONER: Is anybody finding fault with depreciation being taken out?

MR. KELLOCK: I think so.

THE COMMISSIONER: Is it not rather a question of the reasonableness of the amount and where it comes from?

MR. McRUER: There is no question as to the principle. But if they take more than is necessary it becomes a secret reserve. If they do not take enough their capital becomes depleted.

MR. KELLOCK: I do not know that you can say that if a company takes more than experience shows is necessary, that that means it is a secret reserve.

THE COMMISSIONER: Perhaps it is not secret but it is a reserve if it is more than is needed for the purpose.

MR. KELLOCK: Yes.

MR. McRUER: And it is secret. It is shown after depreciation.

THE COMMISSIONER: You have to go behind the figure to find it out.

MR. KELLOCK: But you do not have to do that in every case.

MR. McRUER: You would in every case to find out what was actually necessary.

MR. KELLOCK: My friend is giving evidence. I will ask the witness --

THE COMMISSIONER: That is not right. I asked Mr. McRuer what his theory was about this. Apparently

is the right? A. Yes.

THE COMMISSIONER: Is anybody finding fault

MR. KNELOCK: I think so.

THE COMMISSIONER: Is it not rather a question

MR. McNURR: There is no question as to the principle. But if they have more than is necessary it becomes a secret reserve. If they do not take

MR. KNELOCK: I do not know that you can say that if a company takes more than experience shows is necessary, that that becomes -- that is a secret reserve

THE COMMISSIONER: Perhaps it is not secret but it is a reserve if it is more than is needed for the purpose.

MR. KNELOCK: Yes.

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MR. KNELOCK: But you do not have to do that

in every case.

MR. [illegible]: You would in every case to find out

what was actually necessary.

MR. [illegible]: My friend is giving evidence. I will cook the witness --

THE COMMISSIONER: That is not right. I caused Mr. Turner what his theory was about this. Apparently

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you are discussing the propriety of having a sum each year for depreciation. I do not think anyone questions the propriety of that. The question is, is it a reasonable sum, or is it used to cover up, as Mr. McRuer says, a reserve.

MR. KELLOCK: Well, I am not willing to admit --

THE COMMISSIONER: I say, is it? I am not saying it is.

BY MR. KELLOCK: Q. In your experience, Mr. Howson, are not the rates for depreciation which are used founded theoretically at least on the experience which an industry has had? A. What rates are you talking about? I made no investigation of the rates in these companies.

Q. Then you cannot say one way or the other whether the rates which the companies adopted or the amounts which they set up for depreciation were proper or improper amounts? A. I am not making any comment on that at all.

Q. All right, Mr. Howson, that is clear. You did, however, say in connection with the Associated Company, you made a general statement first that you found that in years where some of these companies made larger profits they charged off larger amounts to depreciation. Do you remember that? A. I did not quite say that. I said it appeared that the amount of the profits seemed to govern the amount of the depreciation set aside each year.

Q. All right, and then you pointed as an example to the Associated Company in the year 1934

You are discussing the propriety of having a sum each year for depreciation. I do not think anyone questions the propriety of that. The question is, is it a reasonable sum, or is it used to cover up, as Mr. McPhee says, a reserve.

MR. KELLOCK: Well, I am not willing to admit

THE COMMISSIONER: I say, is it? I am not saying it is.

BY Mr. KELLOCK: Q. In your experience, Mr. Dawson, are not the rates for depreciation which are used founded theoretically at least on the experience which an industry has had? A. What rates are you talking about? I made no investigation of the rates in these companies.

Q. Then you cannot say one way or the other whether the rates which the companies adopted or the amounts which they set up for depreciation were proper or improper amounts? A. I am not making any comment on that at all.

Q. All right, Mr. Dawson, that is clear. You did, however, say in connection with the [illegible] first that you found that in years where some of these companies made larger profits they entered a larger amounts to de reciation. Do you remember that? A. I did not quite say that. I said it appeared that the amount of the profits seemed to govern the amount of the depreciation set aside each year.

Q. All right. And then you pointed as an

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and the year 1935, and you said that in the year 1934 the Associated Company's net rofits were greater than in 1935, and that the depreciation which they had charged off in the year when they had made greater profits was greater than in the year when they had made less. A. I did not refer to the profits of Associated Textiles at all. I was just using it as an illustration. I made the general statement that depreciation charges were not uniform and that that was the reason we had dealt with percentages in the way we had. I pointed out that in 1934 the depreciation in this statement was apparently not in accordance with the preceding charges. I do not think I made any reference to the profits of this company in relation to that at all.

Q. What did you mean when you said that in 1934 the depreciation was not in accordance with the previous history? A. Because I read off the amounts of depreciation during the years.

Q. Yes? A. And I pointed out that in 1935 the depreciation was $57,804 as against $85,867 the previous year, and that the investment of fixed assets was greater that year than the year before. It had increased from $1,180,000 to $1,307,000. I do not think I related it to the profits of the year at all. As a matter of fact the profits of the year were less than the year before. That may explain it.

Q. You said, Mr. Howson, that the investment in fixed assets in 1934 was, how much ?

A. $1,180,000 odd as against $1,307,000 the following year.

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the Amoskeag Company's [illegible] profits were greater
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A. $1,180,000 and as against $1,207,000 the following
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THE COMMISSIONER: And the first year they took $85,000 for depreciation, and the second year $57,000.

BY MR. KELLOCK: Q. Will you give me the figures for 1933? A. The depreciation figure for 1933 was $76,924, and the asset figure $1,036,000

Q. And the profits in 1933 were what? A. $197,000.

Q. And in 1934, $144,000. Is that right? A. $197,000 in 1933 and $144,000 in 1934.

Q. And they took less depreciation in 1933 when their profits were much higher than in 1934, when their profits were much lower? A. In reference to the two years, yes.

MR. McRUER: Of course the net profit is after depreciation.

MR. KELLOCK: That is all right, yes.

BY MR. KELLOCK: Q. Now, Mr. Howson, with regard to Dominion income tax. No company can operate in Canada without paying Dominion income tax? A. Well --

MR. McRUER: I am not so sure about that.

THE WITNESS: There is an exemption.

BY THE COMMISSIONER: Q. What is the exemption? A. I think it is $2,000 a year -- no, I am wrong, there is no exemption for companies.

BY MR. KELLOCK: Q. I did not think you were going to be sl elementary with me, Mr. Howson. If a company makes any profit at all it has to pay income tax? A. It should.

Q. There is no escape from that, is there? A. There should not be.

THE COMMISSIONER: And the first year they took $65,000 for depreciation, and the second year $57,000.

BY MR. KELLOCK: Q. Will you give me the figures for 1957? A. The depreciation figure for 1957 was $74,994, and the asset figure $4,000,000

Q. And the profits in 1958 were what?

A. $197,000.

Q. And in 1954, $144,000. Is that right?

A. $197,000 in 1958 and $144,000 in 1954.

Q. And they took less depreciation in 1958 when their profits were much big er than in 1954, when their profits were much lower? A. In reference to the two years, yes.

MR. McRUER: Of course the net profit is after depreciation.

MR. KELLOCK: That is all right, yes.

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Q. Then is not that an expense the company has got? A. It is not an expense at all.

Q. You call it a profit-sharing scheme?

A. If a company makes no profit it pays no tax. If it makes profits it divides with the government.

Q. You do not think that is a charge which the company has to keep in front of it in operating?

A. No.

THE COMMISSIONER: What is the point of that? Can you tell me, Mr. Kellock?

MR. KELLOCK: The point of that, my lord, is that Dominion income tax is an expense.

THE WITNESS: Are you going to include it in your costs?

MR. KELLOCK: I would think so.

THE WITNESS: I would not.

THE COMMISSIONER: In arriving at your net income, it is an outgo.

THE WITNESS: Yes.

MR. KELLOCK: We have a lot of figures in this Exhibit, "before income tax." I do not know the purpose of that. What is the significance of that?

THE COMMISSIONER: What is the trouble with that?

MR. KELLOCK: What use are they? It is what the company nets that is important, and not what it nets plus something else.

THE COMMISSIONER: If what it nets is not shown, you might have some complaint, but as long as the whole picture is shown, what is your complaint? You have gross profits before depreciation, gross profits after depreciation, net profits before income tax, net profits after income tax. There is nothing

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THE COMMISSIONER: What is the trouble with that?

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THE COMMISSIONER: If what it nets is not known, you might have some complaint, but as long as the whole picture is known, that is [illegible] profits after depreciation, not profits before income tax, not profits after income tax. There is nothing

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there that is going to mislead anybody.

MR. KELLOCK: Very well, my lord, but my friend referred to some of these figures, "before depreciation," and "before income tax".

THE COMMISSIONER: You can refer to them any way you like.

MR. KELLOCK: And I was asking Mr. Howson, who says that income tax is not an expense but a share of profits --

THE COMMISSIONER: What is the difference to me, so long as I have these figures?

MR. KELLOCK: I do not think there is any point to it so far as Your Lordship is concerned.

THE COMMISSIONER: What is the difference when in the long run you find that last year the net profits were $932,000, whether you call an item above that an item of expense or a share in the gross profits? What difference does it make?

MR. KELLOCK: What I do not follow, my lord, is why my friend spends time in speaking of net profits before and after depreciation and ignores the income tax.

THE COMMISSIONER: It is not ignoring the income tax.

MR. KELLOCK: In some of his statements and examination, as I took it down, he did, if you will pardon me, my lord, but the point I think is clear now.

BY MR. KELLOCK: Q. Now, Mr. Howson, would you go to the next sheet, the Belding-Corticelli Company. The first figure you have there for 1926, capital

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MR. KERLOCK: Very well, my lord, but my friend referred to some of these figures, "before depreciation," and "before income tax".

THE COMMISSIONER: You can refer to them any way you like.

MR. KERLOCK: And I was asking Mr. Howson, who says that income tax is not an expense but a share of profits --

THE COMMISSIONER: What is the difference to me, so long as I have these figures?

MR. KERLOCK: I do not think there is any point to it so far as Your Lordship is concerned.

THE COMMISSIONER: What is the difference when in the long run you find that last year the net profits were $252,000, whether you call an item above that an item of expense or a share in the gross profits? What difference does it make?

MR. KERLOCK: What I do not follow, my lord, is why my friend spends time in speaking of net profits after [illegible] income tax.

THE COMMISSIONER: It is not ignoring the income tax.

MR. KERLOCK: In some of his statements and [illegible] as I took it down, he did, if you will [illegible], my lord, but the point I think is clear now.

MR. KERLOCK: [illegible], Mr. Howson, would you go to the next sheet, the Belding-Corticelli Company. The first figure you have there for 1926, certain

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employed in operations, is $2,544,825.99. How is that figure made up? A. In the same general way as the other one.

THE COMMISSIONER: He said it was the difference between the assets and liabilities after eliminating good will.

MR. KELLOCK: Not the difference between all assets and all liabilities. What about good will?

THE COMMISSIONER: After eliminating good will.

MR. KELLOCK: I see.

THE WITNESS: Do you want me to give the detail of that?

MR. KELLOCK: No, that is all right.

BY MR. KELLOCK: Q. In the next line you show capital employed outside industry $106,662.15. How is that made up? A. Call loans and bonds of the company. It is investments for sinking fund purposes.

Q. Call loans and bonds held by the company? A. For sinking fund purposes.

Q. What about cash on hand? A. That is in the capital employed.

Q. That is in the top line? A. Yes.

Q. And cash in the bank? A. Yes.

Q. That is in the top line too? A. Yes.

Q. If a company has cash in the bank at one per cent, do you regard that as capital employed in the business while if a company buys a bond or puts the money out on call loan at a higher rate, you regard that as capital employed outside the business? A. Well, I have got to presume that any money that is invested outside business is not needed in the

employed in operations, is $8,844,835.99. How is that figure made up? A. In the same general way as the other one.

THE COMMISSIONER: He said it was the difference between assets and all liabilities. What about good will?

MR. KELLOGG: Not the difference between all assets and all liabilities. What about good will?

THE COMMISSIONER: After eliminating good will.

MR. KELLOGG: I see.

THE WITNESS: Do you want me to give the detail of that?

MR. KELLOGG: No, that is all right.

BY MR. KELLOGG: Q. In the next line you have "Bonds, $[illegible]." How is that made up? A. Call loans and bonds of the company. It is investments for sinking fund purposes.

Q. Call loans and bonds held by the company?

A. [illegible]

Q. What about cash on hand? A. That is in the capital employed.

Q. That is in the top line? A. Yes.

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Q. If a company has cash in the bank at one per cent, do you regard that as capital employed in the business while if a company buys a bond or puts the money out on call loan at a higher rate, you regard that as capital employed outside the business? A. Well, I have got to presume that any money that is invested outside business is not needed in the

business, and that any money kept in the business is used for business purposes. That is the only distinction I can make in making up these statements.

THE COMMISSIONER: When you refer to money in the bank, Mr. Kellock, do you mean savings account

MR. KELLOCK: Savings or current account.

THE COMMISSIONER: Why do you regard a current account as not working?

MR. KELLOCK: My question to the witness was if he regards money left in the bank as capital employed.

THE COMMISSIONER: Left in the bank? It is a current account. It is being handled all the time, is it not?

THE WITNESS: Yes. It is a current account handled all the time.

MR. KELLOCK: It may or may not be.

THE COMMISSIONER: When you say, left in the bank, I would think you meant a savings account. You would call that an outside investment, if he had a savings account in the bank?

THE WITNESS: Not necessarily. If it was a permanent investment, yes, it would come in the same category as investments or securities.

BY MR. KELLOCK: Q. What you are saying is that if a company leaves its money in its current account, you would regard that as capital employed in the business?

THE COMMISSIONER: I do not think you are putting the question fairly, unintentionally or course. You use two words that do not run together. You say, leave its money in a current account. A

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THE COMMISSIONER: When you refer to money in the bank, Mr. Kellock, do you mean savings account or current account?

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MR. KELLOCK: Yes. It is a current account handled all the time.

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BY MR. KELLOCK: Q. What you are saying in fact if a company leaves its money in its current account, you would regard that as employed in the business?

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current account does not mean money is left there. It means it is used. I presume a current account is used for business purposes. Is not that right? Is not that the kind of account you mean?

MR. KELLOCK: I mean money in the bank, yes, I will say in a current account.

BY MR. KELLOCK: Q. I ask you, Mr. Howson, if the company has its money in a current account, would you regard that as capital employed in the business, but if the company takes that money or any part of it and puts it out on call loan or buys a bearer bond with it, both of which are immediately available for the business by a telephone call, you would regard that as money employed outside the industry? A. I will answer that this way. In preparing this statement I have treated bank balances as working capital required for the business. Otherwise, I would have had to make investigation as to whether the money was excessive beyond the requirements of the company or on some other basis.

Q. That is the point. You would have had an awful lot of difficulty, and you have an awful lot of difficulty today in saying that this company or any other company that puts part of the cash which it has on hand or in the bank out on a call loan -- you would have an awful lot of difficulty in saying that that was money it did not need. A. I have treated it that way. That is the answer I have given.

MR. McRUER: You show all that on your statement. You show the percentage to total capital employed.

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MR. KENYON: I mean money in the bank. Yes. I will say in a current account.

BY MR. KENYON: Q. I ask you, Mr. Howson, if the company has its money in a current account, would you regard that as capital employed in the business, but if the company takes that money or any part of it and puts it out on call loan or buys a bearer bond with it, both of which are immediately available for the business by a telephone call, you would regard that as money employed outside the business? A. I will answer that this way. In preparing this statement I have treated bank balances as working capital required for the business. Otherwise, I would have had to make investigation as to whether the money was necessary beyond the requirements of the company or on some other basis.

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It is in the middle of the page. You could not get a fairer way of putting it.

MR. KELLOCK: The basis of the division is shown in the first two lines on the page.

THE WITNESS: Yes, as far as the cash balances are concerned.

BY MR. KELLOCK: Q. And you do not know, Mr. Howson, in the case of this company in 1926 or 1935 or any intervening year, whether or not the amounts that you show there as invested outside the industry were really needed? A. I am just saying it was invested outside the industry, and it is shown here as it was, and I am treating it in that way. As far as the cash on hand is concerned I take the balance this company has maintained from year to year according to their returns, and I presume it is necessary in their business to have these funds available for working capital.

MR. McRUER: They got a bigger return in 1935 on the money invested outside the business than on the money invested in the business.

MR. KELLOCK: If you please, I would like to examine the witness.

BY MR. KELLOCK: Q. Is it not fair to say, Mr. Howson, that money invested on call loan can be had at once? A. It is available, but at the same time it is invested outside the business, drawing revenue from some other source than the trading operations. That is really the distinction that is being made.

THE COMMISSIONER: Ought not that to be the test? That is to say, any particular fund that is

a better way of putting it.

MR. KELLOGG: The basis of the division is shown in the first two lines on the page.

THE WITNESS: Yes, so far as the cash balances are concerned.

BY MR. KELLOGG: Q. And you do not know, Mr. Howson, in the case of this company in 1929 or 1930 or any intervening year, whether or not the amounts that you show there as invested outside the industry were really needed? A. I am just saying it was invested outside the industry, and it is shown more as it was, and I am treating it in that way. As far as the cash on hand is concerned I take the balance this company has maintained from year to year according to their return, and I presume it

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drawing revenue from outside the business may cease to do that when you call it, but as long as it is left there, you cannot say it is working in the business.

MR. KELLOCK: My submission would be just as logical, I submit, to say that a current account which is drawing one per cent is money working outside the business.

THE COMMISSIONER: I would not say that because it is not entirely outside. The bank may give you one per cent to have your account, but still it is a working account. However, as long as it is set out here, what is the difference?

MR. KELLOCK: I wanted to know what the significance of the first two lines was.

MR. McRUER: It shows in the middle of the page, "Total Revenue, percentage per total capital employed," also the "percentage of capital employed in operations," dealing with revenue from operations.

MR. KELLOCK: I wanted to find out the significance of the first two lines, which is carried all through the exhibit and through others I have seen.

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-- The Commission adjourned at 12.30 p.m. until 2.15 p.m.

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(Page 12451 follows)

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-- The Commission adjourned at 12.30 p.m. until 2.15 p.m.

(Page 14861 follows)

-- The Commission resumed at 2:15 P.M.

E. J. HOWSON, Examination resumed.

BY MR. KELLOCK: Q. Mr. Howson, in these figures which you have of capital invested outside the industry in the case of the Belding-Corticelli Company, these figures are at the end of each period? A. Yes.

Q. That is, it is just the condition existing on one day in each year ? A. Yes.

Q. Did you look into the situation at all as between 1930 and 1931, where in 1930 the figure is $136,000. and in 1931 $402,000.? A. What figures are you referring to there ?

THE COMMISSIONER: That must be the top line.

MR. KELLOCK: It is the second line from the top in 1930 and 1931, capital employed outside the industry ? A. No, I did not look into it at all.

Q. You are not able to say then whether or not the inventory in that period had gone down about a similar amount ?

THE COMMISSIONER: As to what ?

MR. KELLOCK: As to whether the inventory had gone down, my lord.

THE COMMISSIONER: Let us understand, this is capital employed outside the industry ?

MR.KELLOCK: Yes.

THE COMMISSIONER: Where does the inventory come into it ?

MR. KELLOCK: Well, if the inventory was realized, my lord, as being larger than was needed temporarily

-- The Commission resumed at 2:15 P.M.

MR. MELLOCK: Q. Mr. Howson, in those figures which you have of capital invested outside the industry in the case of the Belding-Corticelli Company, these figures are at the end of each period? A. Yes.

Q. That is, it is just the e dit on existing one day in each year ? A. Yes.

Q. Did you look into the situation at all as between 1930 and 1931, where in 1930 the figure is $138,000, and in 1931 $405,000.? A. Both figures are you referring to there ?

THE COMMISSIONER: That must be the top line.

MR. MELLOCK: It is the second line from the in 1930 and 1931, capital employed outside the industry ? A. No, I did not look into it at all.

Q. You are not able to say then whether or not the inventory in that period had gone down about a similar amount ?

THE COMMISSIONER: As to what ?

MR. MELLOCK: As to whether the inventory had gone down, or less.

THE COMMISSIONER: Let us understand, this is capital employed outside the industry ?

MR. MELLOCK: Yes.

THE COMMISSIONER: Where does the inventory go into it ?

MR. MELLOCK: Well, if the inventory was reduced

and the proceeds invested that is where we would find it if that condition existed, but you have not looked into it? A. I have it right here.

BY THE COMMISSIONER: Q. What have you there ? A. I have the balance sheet which shows the condition of the inventory and the condition of the investments outside .

Q. Who made up the figures $402,000.; are they shown there ? A. Yes, they are right here.

Q. Under what heading ? A. Under the heading of Investments outside. They are investments outside the business at that time.

Q. You cannot tell us how they become swollen from $136,000. A. Mr. Kellock suggests the inventory has gone down which it did, from $919,000. to $625,000. and it kept on going down.

BY MR. KELLOCK: Q. That means then that the company realized it did not need to have such a high inventory, and wanted to reduce its inventory and turns it into cash and temporarily invests it ? A. Yes, exactly.

Q. I see; and as between 1932 and 1933 what about the inventory ? A. It went down further.

BY THE COMMISSIONER: Q. When is that ? A. Between 1932 and 1933.

MR. KELLOCK: Between 1932 and 1933, my lord.

BY THE COMMISSIONER: Q. It went down again in 1932 below 1931 and it is up again in 1933 ? A. The inventory goes up again in 1934 and 1935.

Q. In 1935 ? A. The inventory.

and the proceeds invested that is where we would find it if that condition existed, but you have not looked into it? A. I have it right here.

BY MR. CHRISTIE: Q. What have you there ?

A. I have the balance sheet with notes showing the details of the inventory and the condition of the investments outside .

Q. Who made up the figures $400,000.; are they shown there ? A. Yes, they are right here.

Q. Under what heading ? A. Under the heading of Investments outside. They are investments outside the business at that time.

Q. You cannot tell us how they got so much from Sims. A. Mr. Wallace suggests the inventory has gone down which it did, from $918,000. to $685,000. and it kept on going down.

BY MR. KELLOCK: Q. That means then that the company realized it did not need to have such a high inventory, and wanted to reduce the inventory and turns it into cash and temporarily invests it ?

A. Yes, exactly.

Q. I see; and as between 1928 and 1929 what about the inventory ? A. It went down further.

BY THE COMMISSIONER: Q. When is that ?

A. Between 1928 and 1929.

MR. KELLOCK: Between 1928 and 1929, my lord.

BY THE COMMISSIONER: Q. It went down again in 1928 below 1927 and it is up again in 1929 ? A. The

Q. Oh, the inventory ? A. The inventory goes up and the investments go down.

BY MR. KELLOCK: Q. You have not attempted to average the condition as to capital employed outside the industry throughout the year in any case ? A. No, I have just taken the closing figures.

Q. At the one day in each year ? A. Yes.

Q. Now, in your result in the third line on that sheet which you get from adding the top two lines as you have said you have eliminated goodwill altogether ? A. Yes.

Q. Mr. Hoson, have you attempted to value in any way the asset which the present company got when it bought the businesses of the preceding companies ? A. No, I was just taking the company's own figures for these valuations.

Q. Well, in eliminating the goodwill of some $948,000. which appears in the company's books you have done that without attempting to find out whether or not that goodwill had any value or not; you just discarded it ? A. Just discarded it, yes.

Q. You, I suppose, have often been asked by clients to look into the value of shares of companies ? A. Yes.

Q. And investigate the circumstances, and do you not put any value on goodwill? You never put any value on goodwill when you are valuing the shares in a company ? A. It depends on the company sometimes. That factor enters into it.

Q. And have you acted where a company was buying the assets of another company as a going concern ?

Q. Oh, the inventory ? A. The inventory goes up and the investments go down.

BY MR. TILLOCK: Q. You have not attempted to average the condition as to capital employed outside the inventory throughout the year in any case ? A. No, I have just taken the closing figures.

Q. At the one day in each year ? A. Yes.

Q. Now, in your result in the third line on that sheet which you get from adding the top two lines as you have said you have eliminated goodwill altogether ?

A. Yes.

Q. Mr. Morgan, have you attempted to value in any way the asset which the present company got when it bought the businesses of the preceding companies ?

A. No, I was just taking the company's own figures for those valuations.

Q. Well, in eliminating the goodwill of some $948,000. which appears in the company's books you have done that without attempting to find out whether or not that goodwill had any value or not; You just discarded it ?

A. Just discarded it, yes.

Q. You, I suppose, may often been asked by officers to look into the value of shares of companies ?

Q. And investigate the circumstances, and do you not put any value on goodwill? You never put any value on goodwill when you are valuing the shares in a company.

A. It depends on the company sometimes. That factor enters into it.

Q. And have you noted where a company was buying

A. Yes.

Q. And you would no doubt often find that if the company is a going concern and making profits then the seller puts a value on his goodwill and the purchaser pays it ? A. He usually demands a price for it.

Q. He usually demands a price for it, and holds the purchaser up to paying it, and if you , in advising the purchaser come to a consideration that the goodwill is at a certain price -- we will just use $500,000. for an example -- you advise your client to pay it and it is paid in cash, would you then, if you were advising your client as to the amount of capital employed in the business of the purchasing company, would you immediately deduct the amount paid for goodwill? A. Would I which ?

Q. Would you immediately deduct the amount paid for goodwill ? A. No, just before that, the preamble to your question.

Q. Having advised your client that $500,000. was a proper figure to pay for goodwill in addition to what they pay for other assets, and they, acting on your advice, pay that, and then they ask you to tell them how much is the capital employed in their business, that is, the purchasing business, they having acquired the goodwill and other assets would you deduct the amount paid for goodwill ? A. Under those circumstances, no.

Q. Under those circumstances, no; now, if your clients instead of having cash to pay for that asset gave shares that the vendor was willing to take --

A. Yes.

Q. And you would no doubt often find that if the company is a going concern and making profits then a seller puts a value on its goodwill and the purchaser pays it ?

A. He usually demands a price for it.

Q. He usually demands a price for it, and helps the purchaser up to paying it, and if you , in advising the purchaser come to a consideration that the goodwill is at a certain price -- we will just use $300,000. for an example -- You advise your client to pay it and it is paid in cash, would you then, if you were advising your client as to the amount of capital employed in the business of the purchasing company, would you immediately deduct the amount paid for goodwill ?

A. Would I what ?

Q. Would you immediately deduct the amount paid for goodwill ?

A. Yes, that would be the result.

Q. Having advised your client that $300,000. was a proper figure to pay for goodwill in addition to what they pay for other assets, and they, acting on your advice, pay that, and then they ask you to tell them how much is the capital employed in their business, that is, the purchasing business, they having acquired the goodwill and other assets [illegible] you de-

[illegible]

Q. Under those circumstances, no: now, if your clients instead of having a cash to pay for that asset

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THE COMMISSIONER: Shares in what ?

BY MR.KELLOCK: Q. Shares in the purchasing company, would you deduct the value of the goodwill from the capital employed in the business ? A. No, not in those circumstances.

Q. Well, here in the case of the Belding-Corticelli Company the goodwill was valued at almost one million dollars, shares were given for it and you have eliminated it entirely from the capital employed in the business ? A. Yes, because I am preparing a statement from an entirely different angle.

Q. What is the angle ? A. To show what this company is earning.

Q. Compared to what ? A. As a trade; the goodwill is the valuation of the earning power these businesses have created in prior years.

Q. Prospective earning power ? A. No, past earning power.

Q. And the ability to continue ? A. Yes.

MR. McRUER: Probably my friend can tell us now we are at it whether the Dominion Bond Company did not buy these shares at a million dollars less than they sold to the Belding Paul Company. He must know that because he is acting for them.

MR. KELLOCK: I know nothing about it.

MR. McRUER: I asked to get the information. I asked for that in Montreal and I have never had it yet.

MR. KELLOCK: Please let us not get off the track.

MR.McRUER: I am not off the track, I am dead on it.

THE CHAIRMAN: Shares in what ?

BY MR. MERLOCK: Q. Shares in the purchasing company, would you deduct the value of the goodwill from the capital employed in the business ? A. No, not in those circumstances.

Well, here in the case of the Belding-Corticelli Company the goodwill was valued at almost one million dollars, shares were given for it and you were eliminated by actually-free the capital employed in the business ? A. Yes, because I am preparing a statement from an entirely different angle.

Q. What is the angle ? A. To show what this company is earning.

Q. Compared to what ? A. As a trade; the goodwill is the valuation of the earning power these businesses have created in prior years.

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Q. And the ability to continue ? A. Yes.

MR. HOWSON: Probably my friend can tell us now why these shares at a million dollars less than they sold to the Belding Paul Company. He must know that because he is acting for them.

MR. MERLOCK: I know nothing about it.

MR. HOWSON: I asked to get the information. I asked for that in Montreal and I have never had it yet.

MR. MERLOCK: Please let us not get off the track.

BY MR. KELLOCK: Q. Mr. Howson, I am asking you -- you said you prepared this statement from a certain angle ? A. Yes.

Q. Now, I don't quite understand what the angle is ? A. To show the earnings of this industry.

Q. On what ? A. On the capital invested, on the physical assets employed in the earning of the capital.

Q. Well, the percentages you have got of net profits to capital is simply on tangible assets ? A. Yes.

BY THE COMMISSIONER: Q. That is on capital after eliminating goodwill ? A. Yes.

BY MR. KELLOCK: Q. It is not really on the capital employed, it is on the tangible capital ? A. It is not really on the capital that the company has issued.

Q. No, I am not speaking of that, it is not on the capital employed, it is on the tangible capital employed? A. It is on the capital represented by tangible assets.

Q. All right; I notice, Mr. Howson, the figures which you have which are at the foot of the first section of the page dealing with the Belding-Corticelli Company, that is, the net revenue applicable to common stock equity, you show certainpercentages there throughout the period ? A. Yes.

Q. Am I right in saying the average is something under five per cent ? A. 4.9 per cent.

Q. Pardon ? A. 4.9 per cent.

BY MR. KNIGHT: Q. Mr. Monson, I am asking you -- you said you prepared this statement from a certain angle ? A. Yes.

Q. Now, I don't quite understand what the angle is ? A. To show the earnings of this industry.

Q. On what ? A. On the capital invested, on the physical assets employed in the earning of the capital.

Q. Well, the percentages you have got of net profits to capital is simply on tangible assets ?

A. Yes.

BY THE COMMISSIONER: Q. That is on capital after liabilities ? A. Yes.

BY MR. KNIGHT: Q. It is not really on the capital employed, it is on the tangible capital ?

A. It is not really on the capital that the company has issued.

Q. No, I am not speaking of that, it is not on the capital employed, it is on the tangible capital employed? A. It is on the capital represented by tangible assets.

Q. All right; I notice, Mr. Monson, the figure which you have which are at the foot of the first section of the page dealing with the selling-articles [illegible], that is, the net returns obtained to common stock equity, you show certain percentages there throughout the period ? A. Yes.

Q. Am I right in saying the average is something under five per cent ? A. 4.9 per cent.

Q. Under ?

Q. And that, as you say, is simply the rate on the tangible assets . I do not suppose you would say that was an excessive rate of earning ? A. I don't think I would pass an opinion on that.

Q. You won't pass any opinion on that ?

BY THE COMMISSIONER: Q. Why ? A. Well, I think it requires a more extensive investigation of a business.

Q. What factors are not there that won't allow you to pass an opinion ? I mean, with your experience and in your profession you ought to be able to give us an opinion if you had all the factors. What is lacking ? A. I haven't made any real investigation of the business as to its hazards, and that sort of thing.

Q. All right.

BY MR. KELLOCK: Q. Mr. Howson, I notice that you also deduct from the figure that you call total capital employed fixed income capital which included bonds and preferred stock; would you just tell me why that is done ? A. That is in order to arrive at the common stock equity, the revenue applicable to the common stock equity.

Q. In doing that you are not suggesting in any way that nothing should be earned on the money borrowed, for instance, on bonds except what the borrower has to pay ? A. That is what the company pays for the use of it?

Q. Are you suggesting in setting it up that way that nothing should be earned by the borrower ? A. I am not suggesting anything, I am just setting out the

. And that, as you say, is simply the rate on the tangible assets . I do not suppose you would say that was an excessive rate of earning ? A. I don't think I would pass an opinion on that.

. You won't pass any opinion on that ?

BY THE COMMISSIONER: Q. Why ? A. Well, I think it requires a more extensive investigation of a business.

. What factors are not there that won't allow you to pass an opinion ? I mean, with your experience and in your profession you ought to be able to give us an opinion if you had all the factors. What is lacking ? A. I haven't made any real investigation of the business as to its hazards, and that sort of thing.

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BY MR. KERLOOK: Q. Mr. Howson, I notice that you also deduct from the figure that you call total capital employed fixed income capital which includes bonds and preferred stock; would you just tell me why that is done ? A. That is in order to arrive at the common stock equity, the revenue applicable to the common stock equity.

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. Are you suggesting in setting it up that any

facts.

Q. No one will borrow money without the expectation of being able to earn more than they paid for it.

MR. McRUER: The whole purpose of this -- we are not scolding anybody -- the purpose is to set out the facts of what they have done under tariff protection.

MR. KELLOCK: We have heard that before. I want to get it from Mr. Howson.

THE COMMISSIONER: Go on, what is your question.

BY MR. KELLOCK: Q. I said no one would borrow money, no company would borrow money if they did not expect to make more than they had to pay. A. In borrowing money to finance a business they expect to make profits over and above the amount they paid for the borrowing; there is no question about that.

Q. Mr. Howson, you have had a good deal of experience and I want to ask you this. In the case of a company which is putting out an issue of stock for new capital that it needs, is it not a fact that the underwriters want to know how many times the company has earned -- over a period of years in the company's experience, how many times the company has earned its bond interest, if they are proposing to raise capital by way of an issue of bonds or stock; isn't that a very common thing ? A. Yes.

Q. Now, perhaps there is no point to this, but my friend made some reference to it and I would like -- no innuendos, Mr. McRuer -- my friend was using a figure which you gave him for net profits -- I am not sure whether it was in connection with this company,

Costa.

A. No one will borrow money without the expecta-
tion of being able to earn more than they paid for it.

MR. MCNAB: The whole purpose of this -- we are not accusing anybody -- the purpose is to set out the facts of what they have under tariff protection.

MR. BLOCK: We have heard that before. I want to get it from Mr. Howson.

THE COMMISSIONER: So on, what is your question.

BY MR. KNIGHT: Q. I said no one would borrow money, no company would borrow money if they did not expect to make more than they had to pay. A. In borrowing money to finance a business they expect to make profits over and above the amount they paid for the borrowing; there is no question about that.

Q. Mr. Howson, you have had a good deal of experience and I want to ask you this. In the case of a company which is putting out issues of stock for new capital that it needs, is it not a fact that the underwriters want to know how many times the company has earned -- over a period of years in the company's development, how many times they earned its bond interest, if they are proposing to raise capital by way of an issue of bonds or stock, it is very common thing? A. Yes.

Q. Now, perhaps there is no point to this, but my friend made some reference to if ever I would like -- no immediate, Mr. Mosher -- my friend was using a figure either for one year or for two years -- I am not sure whether it was in connection

and then he added to that the amount which the company had paid to redeem its bonds. Do you recall that? My friend was saying the net profits of this company over a period of years are so much and the amount paid to redeem its bonds -- I think it is the Belding-Corticelli Company that did redeem its bonds -- is so much. We add those two together and we show that the company apparently did that, and is there any object from an accounting point of view or your point of view in adding the net profits to the amount paid to retire bonds ? A. No.

Q. No point to that at all ; the bondholder is a creditor of the company, isn't he ? A. Yes.

Q. Just like the man that supplies coal ?

A. Probably better off.

Q. Yes, he has got a little better security. There would not be any more object in adding the amount paid to redeem bonds than the amount the company paid for its coal ? A. No.

R. McRUER: Just a minute, so that you are not deceiving yourself. My point isn't from an accounting point of view, it is from a tariff point of view that they are able to pay off their bonds. It is a question of how you are getting along. That is all.

BY MR. KELLOCK: Q. Mr. Howson, would you be good enough to give me in the case of the Belding Company the amount which the Belding Company paid for mill wages in the period 1931 to 1935 ? A. 1931 to 1935?

Q. Yes, please ?

THE COMMISSIONER: That is including both years?

and then be added to that the amount which the company had paid to redeem its bonds. Do you recall that My friend was saying the net profits of this company over a period of years are so much and the amount paid to redeem its bonds -- I think it is the Belding-Corticelli Company that did redeem its bonds -- is so much. We add those two together and we show that the company apparently did that, and is there any object from an accounting point of view or your point of view in adding the net profits to the amount paid to redeem bonds ?

A. No.

Q. No point to that at all ; the bondholder is a creditor of the company, isn't he ? A. Yes.

Q. Just like the man that supplies coal ?

A. Probably better off.

Q. Yes, he has got a little better security. There would not be any more object in adding the amount paid to redeem bonds than the amount the company paid for its coal ? A. No.

R. HOUSSER: Just a minute, so that you are not deceiving yourself. My point isn't from an accounting point of view, it is from a tariff point of view, that they are able to pay off their bonds. It is a question of how you are getting along. That is all.

BY MR. BENSON: Q. Mr. Howson, would you be good enough to give me in the case of the Belding Company the amount which the Belding Company paid for mill [illegible] in the period 1921 to 1935 ? A. 1921 to 1935

Q. Yes, please ?

MR. KELLOCK: Yes, my lord, inclusive.

A. $2,335,135.

BY MR. McRUER: Q. How much ? A. $2,335,135.

BY MR. KELLOCK: Q. I make it larger than that; what are your figures ? A. Well, this may be the same situation as in the Associated Textiles.

THE COMMISSIONER: You said in wages ?

MR. KELLOCK: Yes, my lord. A. The total mill wages may be spread over different headings.

Q. Just give me your figures and I will see; how many years have you got there ? A. I have got 1926 to 1935.

BY THE COMMISSIONER: Q. You asked for five years, beginning with 1931 ? A. The amount I have is $525,426. for 1931; $481,426. for 1932; $415,869. for 1933; $452,835. for 1934 and $459,569. for 1935.

BY MR. McRUER: Q. A total of how much ?

A. A total of $2,335,135.

Q. Have you any idea how many that is distributed among? I suppose not ? A. Yes; I have got that here.

BY MR. KELLOCK: Q. Now, you have not included in that the mechanical staff, have you ? A. I cannot tell you that from these returns, Mr. Kellock.

BY THE COMMISSIONER: Q. What is asked for in the return ? A. We asked for wages in the return.

Q. These are the figures you got ? A. Yes, they apparently charged other wages under other headings.

BY MR. KELLOCK: Q. Now, if you look on page --

BY MR. MONTGOMERY: Q. How much? A. $2,365,185.

BY MR. KELLOCK: Q. I mean if Harper Bros. [illegible]

what are your figures? A. Well, this may be the same situation as in the Associated Textiles.

THE CHAIRMAN: You said in wages?

MR. KELLOCK: Yes, my lord. A. The total of wages may be spread over different headings.

Q. Just give me your figures and I will see; how many years have you got there? A. I have got 1926 to 1935.

BY THE CHAIRMAN: Q. You asked for five years beginning with 1931? A. The amount I have is $252,454, for [illegible] $340,567. for 1935; $458,885. for 1934 and $459,569. for 1933.

BY MR. MONTGOMERY: Q. A total of how much?

A. A total of $2,365,185.

Q. Have you any idea how many that is distributed among? I suppose not? A. Yes; I have got that here.

BY MR. KELLOCK: Q. Now, you haven't included in that the mechanical staff, have you? A. I cannot tell you that from these returns, Mr. Kellock.

the return? A. We asked for wages in the [illegible].

Q. These are the figures you got? A. Yes, they separately charged other wages under other headings.

it looks like 19-- A. Yes.

Q. Is it headed "Salary and Wages Classification"? A. Yes. Mill wages there are $492,000 for 1931.

Q. That is without mechanical staff which is the very next item ? A. Then there is $32,000.

Q. And mill supervision and clerical ? A. Oh yes, I see, it is down below.

Q. I want the totals of those, Mr. Howson ? A. 1931, $624,937. Wait till I add them up. $2,822,416.

Q. And 1926 to 1930 ? A. $3,267,810.

Q. Now, willyou give me the income taxes paid the Dominion Government in both these periods, 1926 to 1930 first ? A. I don't know that I can give you the amounts paid. They have here a government tax reserve which they set up as a provision for it. I don't know whether it is all paid or not.

Q. All right, let us have that ? A. In the first six years $81,606.

Q The first five years, isn't it,1926 to 1930 inclusive ?

THE COMMISSIONER: You say it is 1926 to 1930 ?

THE WITNESS: The first five years.

MR. KELLOCK: Mr. Howson said six. A. And $70,500 for the last five.

Q. What was the first figure ? A. $81,606.

BY THE COMMISSIONER: Q. What is the next figure? A. $70,500.

BY MR. KELLOCK: Q. Now, then, looking at your statement as to net profit if my arithmetic is right

it looks like it. Yes.

Q. Is it headed "Salary and wages classification

A. Yes. Will wages there look like?

Q. What is without unlicensed stuff which is the

very last line?

A. Some where in there.

Q. And milk supervision and clerical? A. Oh y

I see, it is down below.

Q. I want the totals of those, Mr. Howson?

A. 1941, $3976,267. Went till I had them up.

$4,008,444.

Q. And 1938 to 1939? A. $3,567,810.

Q. Now, William give me the income taxes paid the Dominion Government in both these periods, 1938 to 1940 first? A. I don't know that I can give you the amounts paid. They have done a government tax reserve which they set up as a provision for it. I don't know whether it is all paid or not.

Q. All right, let us have that? A. In the first six years $21,005.

Q. The first five years, isn't it, 1925 to 1930 inclusive?

THE COMMISSIONER: You say it is 1925 to 1930?

THE WITNESS: The first five years.

Mr. KELLOCK: Mr. Howson and six. A. And $70,500 for the last five.

Q. What was the first figure? A. $21,[illegible].

BY THE COMMISSIONER: Q. That is the next figure?

A. $71,500.

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the net profits of the company after income tax from 1926 to 1930 inclusive were $985,394. whereas the amount paid in wages in the same period was $3,267,810., and the amount paid for Dominion Income Tax, or appropriated for that purpose $81,606., and in the following period from 1931 to 1935 the net profits of the company shrunk to $559,070. The wages were $2,822,416 and the amount paid for appropriated for Dominion Income Tax $70,000.; is that right ?

A. I have not checked the profits.

Q. I have added them across the page ? A. Well, the figures are together.

Q. All right; now, coming to the Bruck Company, Mr. Howson, which is the next one that you dealt with, right at the foot of the page there is a line there, net profit on sales and below that the percentage of net profit to sales; that is what that means, is it ? A. Yes.

Q. Now, in the year 1929, you show 20.4 per cent and in the following year it drops to one per cent ? A. Yes.

Q. Have you looked into the situation so as to be able to tell us why that result came about ?

A. The only reason is they had less profits, I presume. I have not looked into that beyond the figures shown in the statement.

Q. Of course, it must mean they had less profits but do you know why ? A. No, I don't know why.

Q. You don't know whether they had to take a big

the net profits of the company after income tax from
1929 to 1930 inclusive were $988,394. whereas the am
paid in wages in the same period was $3,387,810.,
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following period from 1931 to 1935 the net profits of
the company shrunk to $889,070. The wages were
$2,882,416 and the amount paid for appropriated for
Dominion Income Tax $70,000.; is that right ?

A. I have not checked the amounts.

Q. I have added them across the page ? A. Yes,
the figures are together.

Q. All right; now, according to the Bowen Company's
Mr. Bowen, which is the next one that you dealt wi
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and in the following year it drops to one per cent ?
A. Yes.

Q. Have you looked into the situation so as to
be able to tell us why that result came about ?

A. The only reason is they had less profits, I pre-
sume. I have not checked over that (showing the figures
shown in the statement).

Q. If correct, it must mean they had less profits
but do you know why ? A. No, I don't know

loss on their inventory or not.

MR . McRUER: Probably they did not have an inventory reserve.

MR. KELLOCK: If that was so some of that might well be applicable to the year 1929 instead of all in the one year, 1930 ? A. I am just taking the company's statement as submitted to me. There is no information given as to that at all.

MR . McRUER: It was not the same kind of drop in the Associated Company so one would hardly think it would be inventory.

BY MR.KELLOCK: Q. Now, you show the percentages there at the foot of the first section of the page, that is, the net revenue applicable to common stock equity, and the percentage, if my arithmetic is right, the average across the sheet is approximately 12 per cent; is that right ?

THE COMMISSIONER: I don't quite understand. Which item are you on ?

MR. KELLOCK: The percentage, my lord, of net revenue applicable to common stock equity.

THE COMMISSIONER: The average per cent is how much ?

MR.KELLOCK: 12 per cent.

THE WITNESS: I would have to work that out.

Q. Are you in a position to say, Mr. Howson, whether or not that is out of the way or not ?

THE COMMISSIONER: Out of what way ?

THE WITNESS: I am in the same position in regard to that as I was with the other one.

loss on their inventory or not.

MR. MORGAN: Ironably they did not have an inventory reserve.

MR. KERLOCK: If that was so some of that might well be applicable to the year 1950 instead of all in the one year, 1950 ? ... I am just taking the company's statement as submitted to me. There is no information given as to that at all.

MR. McCLEAN: It was not the same kind of drop in the Associated Company so one would hardly think it would be inventory.

BY MR.KERLOCK: Q. Now, you show the percentages there at the foot of the first section of the page, that is, the net revenue applicable to common stock equity, and the percentage, if my arithmetic is right, the average across the sheet is approximately 12 per cent; is that right ?

THE COMMISSIONER: I don't quite understand. Which item are you on ?

MR. KERLOCK: The percentage, my Lord, of net revenue applicable to common stock equity.

MR.KERLOCK: 12 per cent.

THE WITNESS: I would have to work that out.

Q. Are you in a position to say, Mr. Howson,

THE COMMISSIONER: Out of what may ?

BY MR. KELLOCK: Q. You cannot say, considering the nature of this business and the amount they have earned whether it is more or less than is reasonably to be expected ? A. No, I would not like to pass any opinion on it in that way.

Q. Then, would you turn over the page to Grout's-- Oh, Mr. Howson, I did want to ask you in the case of the Bruck Company if you would give me the same information, and, that is, can you give me the wages paid by the company from 1931 to 1935 ?

MR.McRUER: If it will shorten it up I will have Mr. Howson prepare that for you and we will file it for all these companies that are in this sheet because it takes a long time for these mathematical calculations that probably you have already.

MR.KELLOCK: No, I haven't got it.

MR.McRUER: You have got copies of the questionnaire surely ?

MR.KELLOCK: I haven't got them. I cannot get them from these companies. I am in your lordship's hands.

MR. McRUER: I was just wanting to help it along.

THE COMMISSIONER: Go on and we will see how long it takes.

THE WITNESS: You want them for both periods, I presume ?

MR. KELLOCK: Yes, please.

THE COMMISSIONER: Is there no other witness from the Company who can give us these things off-hand without having to put the witness in the box to the

the return of this business and the amount they have earned whether it is more or less than is reasonably to be expected ? ... No, I would not like to pass any opinion on it in that way.

Q. Then, would you turn over the case to Dyment, Mr. Howson, I did want to ask you in the case of the Brock Company if you would give me the same information, that is, can you give me the wages paid by the company from 1921 to 1929 ?

MR.HOWSON: If it will shorten it up I will have Mr. Howson prepare that for you and we will file it for all these companies that are in this about because it takes a long time for these theoretical calculations that probably you have already.

MR.KELLOCK: No, I haven't got it.

MR.MOWAT: You have got copies of the commissioner's surely ?

MR.KELLOCK: I haven't got them. I cannot get them from these companies. I am in Mr Lordship's hands.

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THE COMMISSIONER: Is there no other witness from the company who can give us those things off-hand

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trouble of making the calculation for you.

MR. KELLOCK: No. If Mr. Howson would do it for all these companies perhaps that would be the best way.

MR. McRUER: If Mr. Kellock tells us what he wants I will have it done.

THE COMMISSIONER: Yes; then you get the figures on the record in the proper way and all together.

BY MR. KELLOCK: Q. If you would do it for all the companies but I would like to have it for this particular company now, if you don't mind, and then you can do the rest of them ? A. The total wages for the first five years, that is covering the mill --

BY THE COMMISSIONER: Q. Covering what ? A. The mill and mill supervision, $940,318., and for the next five years --

BY MR. McRUER: Q. What is it ? I did not get that ? A. $940,318., and for the next five years $1,869,916.

Q. That includes the Valleyfield company ?

MR. KELLOCK: No, this is Bruck.

MR. McRUER: Oh yes, I beg your pardon.

MR. KELLOCK: And the Dominion Income Tax, Mr. Howson ?

THE COMMISSIONER: Is that the tax or what was put aside ? How is it called there ?

MR. DAVIDSON: I will make it up, Mr. Howson. I have the figures right here.

THE WITNESS: In the first five years $44,279, and in the second five years $83,067.

possible of making the calculation for you.

MR. KNITLOCK: No. If Mr. Howson would do it

[illegible]

MR. DAVIDSON: Mr. Knitlock tells us what he wants

will take it there.

THE COMMISSIONER: Yes; then you put the figures

the record in the proper way and all together.

BY MR. KNITLOCK: Q. If you would do it for all

the companies but I would like to have it for this par-

n do the rest of them ? A. The total wages for

First five years, and is covering the mill --

BY THE COMMISSIONER: Q. Covering what ?

. The mill and mill supervision, $940,318., and for

BY MR. KNITLOCK: Q. What is it ? I did not get

A. $940,318., and for the next five years

1,869,916.

Q. That includes the Valleyfield company ?

MR. KNITLOCK: No, this is Brook.

MR. HOWSON: Oh yes, I beg your pardon.

MR. KNITLOCK: And the Dominion Income Tax, Mr.

THE COMMISSIONER: Is that the tax or what was put

is it called there ?

MR. DAVIDSON: I will make it up, Mr. Howson. I

have the figures right here.

BY MR. KELLOCK: Q. Well then, have you got the figure for net profits in the same period ?

THE COMMISSIONER: Net profits on sales ?

MR. KELLOCK: Yes, my lord.

MR.Mc RUER: We have given that. It is $378,388. for the first five years and $317,829. for the next five years, or a total of $696,218.08.

MR.KELLOCK: Is that right ? Then, we haveit then that from 1926 to 1930 the net profits were $378,000. and the wages paid $940,000., and income taxes $44,279. In the period 1931 to 1935 the net profits were down to $317,829. and the wages were up to $1,869,916., almost twice as much as in the previous period, and the income taxes were twice as much $83,067. Then, when you turn over a-

MR. McRUER: Hold on now, I misled you there, Mr. Kellock. I was trying to help you but I cited Grout's figures for profits.

THE COMMISSIONER: Well, we had better straighten all that out then. I saw there was an error myself there. Which company is it we are talking about ?

MR. KELLOCK: Bruck's, my lord.

THE COMMISSIONER: I think, Mr. Kellock, if you were to take out of this statement the figures that present the favourable aspect you have put before me you had better do it or have it done with Mr. Howson outside and bring them here and read them to me because we are wasting a lot of time here, and I cannot carry them in my head anyhow.

MR. KELLOCK: Very well, my lord.

BY MR. KELLOCK: Well then, have you got the figure for net profits in the same period ?

MR. MORROW: Yes, my lord.

MR. MORROW: We have given that. It is $278,988. for the first five years and $317,088. for the next five years, or a total of $596,076.

Then that from 1926 to 1930 the net profits were $278,070. and the wages paid $400,000., and income taxes $44,279. In the period 1931 to 1935 the net profits were down to $317,088. and the wages were up to $1,809,070., almost twice as much as in the previous period, and the income taxes were twice as much $89,087. Then, when you turn over -

MR. MORROW: Hold on now, I misled you there, Mr. Kellock. I was trying to help you but I cited Orent's figures for profits.

THE COMMISSIONER: Well, we had better straighten all that out then. I saw there was an error myself there. Which company is it we are talking about ?

MR. KELLOCK: Smuck's, my lord.

THE COMMISSIONER: I think, Mr. Kellock, if you were to take out of this statement the figures that present the favourable aspect you have put before us you had better do it or have it done with Mr. Morrow outside and bring them here and read them to me because it was working - kind of slow here, and I cannot keep them in my head anyhow.

MR. KELLOCK: Very well, my lord.

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MR . McRUER: If Mr. Kellock will just give us a short memorandum of what he wants then we can have it prepared.

THE COMMISSIONER: Yes and then you have it on the record where it ought to be.

MR. KELLOCK: I think Mr. Howson understands what I want.

MR.McRUER: I would sooner have a memorandum of just what you want , have it made out A,B,C,D, and then we know exactly and no mistake about it.

Page 12470 follows.

Page 14470 follows.

MR. KELLOCK: I cannot tell you in advance.

THE COMMISSIONER: No. Take your time about it.

THE WITNESS: The net profit for the first five years was $730,000, and for the second five years $783,572.

THE COMMISSIONER: That makes it look a little different, about $1,500,000. The net profits in the first period were $730,000 and wages $940,000, and in the second period the net profits were $783,000 and wages $1,689,000.

THE WITNESS: Yes.

BY MR. KELLOCK: Q. More than double. Now I come to the next company, Grout's Limited, on the next page, Exhibit 907. My friend called attention to the fact that the common stock equity in 1926 was $311,626. A. Yes.

Q. In 1930 the figure was $635,421.69, as it appears about the middle of the page. A. Yes.

Q. And in 1935 it was $1,090,833.84? A. Yes

Q. Now that last figure for 1935 is not a comparable figure at all, is it, because it includes the Valleyfield Company for that year 1935 ?

MR. McRUER: That is quite right. It should have been 1933.

MR. KELLOCK: My friend should have stopped at 1933.

THE WITNESS: It includes the Valleyfield figure.

MR. KELLOCK: It is not comparable with the other figure.

MR. McRUER: There are two companies instead of one after that.

BY MR. KELLOCK: Q. In the years 1932 and 1933,

years was $780,000, and for the second five years $782,372.

THE COMMISSIONER: That makes it look a little different, about $1,900,000. The net profits in the first period were $780,000 and wages $640,000, and in the second period the net profits were $782,000 and wages $1,669,000.

BY MR. ALDOUS: Q. Here then Gamble. Now I come to the next company, Crow's Limited, on the next page, Exhibit 907. My friend called attention to the fact that the common stock equity in 1936 was $611,386.

A. Yes.

Q. In 1930 the figure was $606,483.69, as it appears about the middle of the page. A. Yes.

Q. And in 1935 it was $1,090,886.94? A. Yes

Q. Now that last figure for 1935 is not a comparable figure at all, is it, because it includes the Valleyfield Company for that year 1935 ?

MR. MONDOU: That is quite right. It should have been 1936.

MR. ALDOUS: My friend should have stopped at 1935.

THE COMMISSIONER: It includes the Valleyfield figure

MR. ALDOUS: It is not comparable with the other figure.

MR. MONDOU: There are two companies instead of one after that.

BY MR. ALDOUS: Q. In the years 1932 and 1936

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right at the top of the sheet you show total capital employed in 1932, $858,319.59? A. Yes.

Q. And the next year, 1933, you show total capital employed $684,173.08. Now the difference is --

THE COMMISSIONER: The figures you gave are of the capital employed both in operation and outside?

MR. KELLOCK: Yes, my lord. I want to get at the difference from Mr. Howson, which is approximately $98,000.

THE COMMISSIONER: It is more than that.

THE WITNESS: $174,000.

BY MR. KELLOCK: Q. I want to shorten it, Mr. Howson. There is a figure in that difference of $98,169 which you call an investment by Grout's Limited in the Valleyfield Company. Is that right?

THE COMMISSIONER: In what year, Mr. Kellock?

MR. KELLOCK: In 1933, my lord, it is taken out.

THE COMMISSIONER: It is taken out?

MR. KELLOCK: Yes.

THE COMMISSIONER: What year did it come in?

MR. KELLOCK: It always was in up to that time, my lord. Your Lordship will recall that the Grout Company purchased liens of various creditors upon the assets of the Brubacher Silk Company, and that is the figure approximately $100,000. Is that right, Mr. Howson? That figure makes part of the difference between those two years.

THE COMMISSIONER: You say this company had acquired liens?

MR. KELLOCK: On the assets of the Brubacher company, and that asset which Grout's Limited acquired

Q. And the next year, 1914, you show total capital employed in 1915, $688,319,392?

A. Yes.

Q. And the next year, 1914, you show total capital employed $688,179.08. How the difference is --

THE COMMISSIONER: The figures you have are of the capital employed that is operated and controlled/

MR. KELLOGG: Yes, my lord. I want to get at $98,000.

THE COMMISSIONER: It is more than that.

THE WITNESS: $674,000.

BY MR. KELLOGG: Q. I want to shorten it, Mr. Monson. There is a figure in that difference of $96,159 which you call an investment by Grout's Limited in the Valley Field Company. Is that right?

THE COMMISSIONER: In what year, Mr. Kellogg?

MR. KELLOGG: In 1915, my lord, it is taken out.

THE COMMISSIONER: It is taken out?

MR. KELLOGG: Yes.

THE COMMISSIONER: What year did it come in?

MR. KELLOGG: It always was in up to that time, my lord. Your lordship will recall that the Grout Company purchased Lions of various creditors upon the assets of the Brunswick Company, and that is the figure approximately $100,000. In that right, Mr. Monson? That figure makes part of the difference between these two years.

THE COMMISSIONER: You say that company had

BY MR. KELLOGG: On the assets of the Brunswick

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was subsequently turned into the common stock of the Valleyfield company.

THE COMMISSIONER: Was that asset included in the capital employed by this company?

MR. KELLOCK: Mr. Howson takes it out, My Lord.

MR. McRUER: Takes it out of one company and puts it in the other.

THE COMMISSIONER: Where was it in this first company? Is it part of the capital employed in operations or is it part of the capital employed outside the industry? These liens I understand were on the assets of another company?

MR. KELLOCK: Yes, but when Grout's Limited paid their $100,000 --

THE COMMISSIONER: That is not the question. I say, where is it here? Is it included here as part of the capital employed in the operations of Grout's Limited?

MR. KELLOCK: That is what I am trying to find out because Your Lordship will see by the second line that in 1933 the capital employed outside is only $92,000 odd.

THE COMMISSIONER: And the year before only $43,000.

MR. KELLOCK: Yes.

THE COMMISSIONER: It is higher in 1933 by $50,000 nearly.

MR. KELLOCK: It should be higher if Mr. Howson was treating it as capital employed outside of Grout's Limited.

THE COMMISSIONER: Let us get to the origin. Where is this sum tobe found here? It is liens on

was subsequently turned into the common stock of [illegible].

THE COMMISSIONER: was that asset included in the capital employed by this company?

MR. WELLOCK: Mr. Bowman takes it out, My Lord.

MR. BOWMAN: Takes it out of one company and puts it in the other.

THE COMMISSIONER: Where was it in this first company? Is it part of the capital employed in operations or is it part of the capital employed outside the industry? These lines I understand were on the assets of another company?

MR. [illegible] Yes, but Bowman's Limited was [illegible] —

THE COMMISSIONER: That is not the question. I say, where is it here? Is it included here as part of the capital employed in the operations of Bowman's Limited?

MR. WELLOCK: That is what I am trying to find out because Your Lordship will see by the second line that in 1952 the capital employed outside is nearly £90,000 odd.

THE COMMISSIONER: And the year before only £45,000.

MR. [illegible]: Yes.

THE COMMISSIONER: It is higher in 1953 by £30,000 nearly.

MR. WELLOCK: It should be higher if Mr. Bowman was treating it as capital employed similar to Trout's Limited.

THE COMMISSIONER: Let us get to the point. Where is this sum that [illegible] is [illegible] on

the assets of another company.

BY THE COMMISSIONER: Q. Did you include that in the capital employed in the operations of this company or as capital employed outside its operations? A. It is capital employed outside. It is not in the company at all. It is investments in a subsidiary, advances to a subsidiary company.

BY MR. KELLOCK: Q. When? A. 1933.

Q. What date? A. I do not know the date except that it was in that year. It shows in their statement for that year as advanced to subsidiary companies $98,168.91.

Q. You take it out of the capital employed by Grout's Limited in its business for the entire year 1933 on this statement? A. Yes.

THE COMMISSIONER: Will you please repeat that.

MR. KELLOCK: I said:

Q. You take it out of the capital employed by Grout's Limited in its business for the entire year 1933, but the expenditure was only made a short time before the end of the year? A. I do not know what date the expenditure was made because there was nothing to indicate it on the returns.

THE COMMISSIONER: This is the company's own return?

MR. KELLOCK: Yes.

THE COMMISSIONER: And Mr. Rowson did not take it out, but it is not there.

MR. KELLOCK: The point, my lord, is that this only shows the picture as of one day, and if Your Lordship looks at --

THE COMMISSIONER: Any annual statement I suppose

assets of another company.

BY THE COMMISSIONER: Q. Did you include that in the capital employed in the operations of this company or the capital employed outside its operations? A. It is capital employed outside. It is not in the company at all. It is investments in a subsidiary, advances to a subsidiary company.

BY Mr. MACLEOD: Q. When? A. 1933.

Q. What date? A. I do not know the date except that it was in that year. It shows in their statement for that year as advanced to subsidiary companies $98,198.81.

Q. You take it out of the capital employed by Grant's Limited in its business for the entire year 1933 on this statement? A. Yes.

THE COMMISSIONER: Will you please repeat that.

MR. MACLEOD: I said:

Q. You take it out of the capital employed by Grant's Limited in its business for the entire year 1933, but the expenditure was only made a short time before the end of the year? A. I do not

there was nothing to indicate it on the returns.

THE COMMISSIONER: This is the company's own

MR. MACLEOD: Yes.

THE COMMISSIONER: And Mr. Dawson did not take it out, but it is not there.

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would do the same thing. What is it you want me to do here? You are trying to have him explain why the capital employed in operations shrank from $814,000 in 1932 to $591,000 in 1933. Is that right?

MR. KELLOCK: Yes, my lord.

BY THE COMMISSIONER: Q. Well, what is the answer? I have not got it yet distinctly. Can you tell us the answer? A. The only thing I can assume is --

Q. The only thing you can do is to assume ? A. That investment of $98,000 in a subsidiary company --

Q. Was taken out from working capital? A. Yes.

MR. McRUER: They paid off bank loans in 1932.

MR. KELLOCK: That would not affect it.

BY MR. KELLOCK: Q. My first point, Mr. Howson, is that you have taken it out -- A. Yes.

Q. You have taken it out on the basis of the return you have got -- I am not criticizing that -- and you have taken it out for the entire year, whereas if my instructions are correct it was used by the company for the major portion of the year and only expended a short time before the close of the period. A. I do not know anything about that. It has been taken out.

Q. And if that were so it would change the percentage which you have on the bottom of that section, the percentage of net revenue to common stock equity of 7.4 ? A. Yes, it would bring the capital up that much if it was included.

would do the same thing. What is it you want me to do next? You are trying to have him explain why the capital employed in operations shrank from $61¢,000 in 1952 to $591,000 in 1953. Is that right?

MR. ROBSON: Yes, my Lord.

BY THE COMMISSIONER: Q. Well, what is the answer? I have not got it yet distinctly. Can you tell us the answer? A. The only thing I can assume is --

Q. The only thing you can do is to assume ?

A. That investment of $45,000 in a subsidiary company --

Q. Was taken out from working capital?

A. Yes.

MR. ROBSON: They paid off bank loans in 1953.

MR. FERGUSON: That would not affect it.

BY MR. FERGUSON: Q. My first point, Mr. Howson, is that you have taken -- A. Yes.

Q. You have taken it out on the basis of the return you have got -- I am not criticizing that -- and you have taken it out for the entire year, whereas if my instructions are correct it was used by the company for the major portion of the year and only remained a short time before the close of the period.

A. I do not know anything about that. It has been taken out.

Q. And if that were so it would change the position where you have on the bottom of that section, the percentage of net revenue to common stock equity of 7.4 ?

A. Yes, it would bring it -- applied an that much if it was included.

Q. Yes. Now looking at that same line across the page, this company appears to have beenmuch better in the years 1926 to 1929 than in the following years, and those earlier years were more or less low tariff years.

THE COMMISSIONER: I was going to ask, is that because they had less tariff, because they did not have such a heavy drag.

THE WITNESS: I cannot answer the question. I do not know what the tariff was.

MR. McRUER: That is the best question you have asked yet.

MR. KELLOCK: I am certainly glad to be able to please my friend.

THE COMMISSIONER: Better go back to the golden age.

MR. KELLOCK: If it would not take too much time, Your Lordship, I would like to compare the wages paid by this company with net profits in the smae period.

MR. McRUER: Mr. Davidson can make that up for you.

THE COMMISSIONER: We will have it this time, but not again if we have it now.

MR. KELLOCK: All right, my lord.

THE WITNESS: The total wages for the first five years was $635,246; for the second five years, for Grout's, $961,462, and Valleyfield $274,906, making a total for the last six months of $1,236,368.

BY MR. KELLOCK: Q. And the income tax? A. For the first five years, $37,293, and for the second five years $53,749.

Q. Yes. Now looking at that same line across the page, this company appears to have consumed better in the years 1926 to 1929 than in the following years, and those earlier years were more or less low tariff years.

THE CHAIRMAN: I was going to say, is that because they had less tariff, because they did not have such a heavy duty.

THE WITNESS: I cannot answer the question. I do not know what the tariff was.

MR. MCBRIDE: That is the best question you have asked yet.

MR. ARNLOCK: I am sorry my plea to be able to please my friend.

THE COMMISSIONER: Better go back to the golden age.

MR. ARNLOCK: If it would not take too much time, Your Lordship, I would like to compare the wages paid by this company with net profits in the same period.

MR. MCFUP: Mr. Davidson can make that up for you.

THE COMMISSIONER: We will have it this time, but not again if we have it now.

MR. ARNLOCK: All right, my lord.

THE WITNESS: The total wages for the first five years was $655,246; for the second five years, for Orcan's, $961,462, and Valley field $274,906, making a total for the last six months of $1,886,668.

Q. And the income tax?

A. For the first five years, $37,283, and for the second five years $52,749.

Q. So in the 1926 to 1930 period profits were $456,267 while wages were $635,246, and at the same time the income tax was $37,293, and in the last period profits were $391,391, wages $1,236,368 and income tax $53,749. Now May I take you, Mr. Howson, to the combined statement, Exhibit 916. You have not got either the Binz Company or the L and L Textiles in this report, have you?

THE COMMISSIONER: L and L Textiles.

MR. KELLOCK: Yes, they have been mentioned from time to time.

THE COMMISSIONER: What does L and L mean?

MR. KELLOCK: That is the name of the company.

THE WITNESS: We have no returns from L and L.

THE COMMISSIONER: We have received returns from the Binz Company.

THE WITNESS: We have not any returns on the questionnaire forms. They were overlooked in making out this statement.

BY THE COMMISSIONER: Q. Didn't they answer the questionnaire? A. They didn't answer the questionnaire, no.

MR. KELLOCK: The Binz Company have over 5 per cent of the total sales in this group of companies that you are dealing with, Mr. Howson, I am told.

BY THE COMMISSIONER: Q. How is it they did not answer the questionnaire? Any explanation of that? A. No, they promised to send it in They said it was in the hands of their auditors. I asked them for it repeatedly and called on them in Montreal, and they always promised it, but it is not in yet.

Howson

3. So in the 1950 to 1960 period profits were $4136,867 while wages were $6656,246, and at the same time the income tax was $67,893, and in the last period profits were $6,987,901, wages $1,836,566 and income tax $38,748. Now may I take you, Mr. Howson, to Mr. Wellman's evidence, Exhibit 214. You have not got either the Bina Company or the L and L Textiles in this report, have you?

Mr. HOWSON: Yes, they have been mentioned from time to time.

THE COMMISSIONER: What does L and L mean?

Mr. HOWSON: That is the name of the company.

THE WITNESS: We have no returns from L and L.

THE COMMISSIONER: We have received returns from the Bina Company.

THE WITNESS: We have not any returns on the questionnaire forms. They were overlooked in making out this statement.

BY THE COMMISSIONER: Q. Didn't answer the questionnaire? A. They didn't answer the questionnaire, no.

MR. WILSON: The Bina Company have over 5 per cent of the total sales in this study so that you are dealing with, Mr. Howson, I am told.

BY THE COMMISSIONER: Q. Now is it they did not answer the questionnaire? Any explanation of that? A. No, they promised to do it they said it was in the hands of their auditors. I phoned them for it repeatedly and called on them in Montreal, and they always promised it, but it is not in yet.

BY MR. KELLOCK: Q. All right. I wented to know why they were not in there. You have got Belding-Corticelli in, which we discussed this morning, when I pointed out that the character of their business is very widely different from some of these other companies. What about the Dominion Silk Company? You have them in this exhibit, haven't you?

A. Yes, it is in.

Q. I am instructed that that company does not weave silk at all, that it is just a throwster.

A. I do not know what their operations are. They answered the major terms on the questionnaire without any question.

Q. Will you be good enough to look at the profit and loss surplus summary which is on the second sheet from the front of this exhibit 916. Your first column on the left shows at the bottom a ratio of net profit from operations to capital employed in the industry of 8.8 per cent?

A. Yes.

Q. Now the companies that you deal with on this page did not operate through a period, did they?

A. You mean all the companies?

Q. Yes.

A. No, they did not operate through, but that percentage is on the amount of capital which was invested in that year.

Q. Yes, but your statement shows, right above that, the number of companies, and it shows there were six operating in 1926 and sixteen operating in 1925, so that your statement does not cover the operations of the same number of companies during the period. Some of them did not operate during

BY MR. KNOWLTON: Q. All right. I wanted to know why they were not in there. You have got Beldings Corticelli in, which we discussed this morning, when I pointed out that the character of their business is very widely different from some of these other companies. What about the Dominion Silk Company? In what line is that material, Dewar's part?

A. Yes, it is in.

Q. I am instructed that that company does not weave silk at all, that it is just a throwster.

A. I do not know what their operations are. They answered the major terms on the questionnaire without any question.

Q. Will you be good enough to look at the profit and loss surplus summary which is on the second sheet from the front of this exhibit 316. Your first column on the left shows at the bottom a ratio of net profit from operations to capital employed in the industry of 8.8 per cent?

A. Yes.

Q. Now the companies that you deal with on this page did not operate through a period, did they? A. You mean all the companies?

Q. Yes. A. No, they did not operate through, but that percentage is on the amount of capital which was invested in that year.

Q. Yes, but your statement shows, right above that, the number of companies, and it shows there in 1925, so that your statement does not cover the operations of the same number of companies during the period. None of them did not operate during

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portions of the period and others did. A. That is correct.

Q. My friend referred to the fact that the average percentage of net profit from operations to capital employed is the same as the figure you have for 1926, that is 8.8 per cent, and then you were asked what the figure for the Belding Company was, and you also gave the figure for Associated. You have not tabulated, have you, how the other companies compare with this, but it is all in here?

A. That was the first comparison that was made.

Q. The figure is in and the comparison can be made?

A. Yes.

Q. Then this last question, Mr. Howson. You told my friend that in the period from 1926 to 1935 the capital employed at the beginning of the period was $4,263,000, and the capital introduced during the period $1,742,000, the total being about $6,000,000 and that the dividends paid during that time were $2,662,275, and that is the picture for the whole industry as on that basis. Is that right ?

THE COMMISSIONER: What period?

MR. KELLOCK: 1926 to 1935, my lord.

BY MR. KELLOCK: Q. Do you recall giving my friend those figures? A. Was that for the whole industry?

Q. All that you have dealt with here.

A. Or was it representative companies?

MR. McRUER: That was representative companies, the last page of this exhibit.

THE COMMISSION : That cannot apply in this case. How many companies are represented in this?

portions of the period and others did. A. That is correct.

Q. By Colonel Stevens on the last one I was average percentage of net profit from operations to capital employed is the same as the figure you have for 1936, that is 8.6 per cent, and then you were asked what the figure for the Holding Company was, and you also gave the figure for Associated. I am have not tabulated, have you, how the other companies compare with this, but it is all in here?

A. That was the first comparison that was made.

Q. The figure is in and the comparison can be

A. Yes.

told my friend that in the period from 1926 to 1935 the capital employed at the beginning of the period was $4,283,000, and the capital increased during and that the dividends paid during that time were

mentary as on that basis. Is that right?

THE CHAIRMAN: What period?

MR. KELLOCK: 1926 to 1935, my Lord.

BY MR. KELLOCK: Q. Do you recall giving my

A.

Q. All that you have dealt with here.

Or was it respectively comparable?

last page of this exhibit.

THE COMMISSION: That cannot apply to it is

ing. How many companies are now represented in this?

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MR. KELLOCK: It is the last page of the exhibit, Mr. Howson.

THE WITNESS: Eight companies.

THE COMMISSIONER: There were sixteen in the others, but only eight now?

BY MR. KELLOCK: Q. Do you recall that figure, Mr. Howson?

THE COMMISSIONER: What is the figure?

MR. KELLOCK: $6,000,000.

THE COMMISSIONER: What is that?

MR. KELLOCK: That is the tangible capital employed at the beginning of that period plus new tangible capital introduced during the period.

THE COMMISSIONER: In these eight companies?

MR. KELLOCK: Yes, my lord, and the total according to my friend is $6,005,807. Now as shown by this exhibit, the last page, the dividends paid by these companies in the same period were $2,662,275.92; that is an average of $266,000 a year or less than 5 per cent per annum.

THE WITNESS: On the ten years?

MR. KELLOCK: For the ten years.

THE WITNESS: Yes.

BY MR. KELLOCK: Q. I want to ask you one other question, Mr. Howson, on Exhibit 916.
A. Is that this present one?

Q. Yes. Please look at the page which deals with operating ratios.

THE COMMISSIONER: Where abouts is that?

MR. KELLOCK: It is the sixth page from the front, my lord.

BY MR. KELLOCK: Q. Your key in the upper

MR. KELLOCK: It is the last page of the exhibit, Mr. Howson.

THE WITNESS: Eight companies.

THE COMMISSIONER: There were sixteen in the others, but only eight now?

BY MR. KELLOCK: Q. To you recall that

THE COMMISSIONER: What is the figure?

MR. KELLOCK: $6,000,000.

MR. KELLOCK: That is the terrible capital employed at the beginning of that period plus new tangible capital introduced during the period.

THE COMMISSIONER: In these eight companies?

MR. KELLOCK: Yes, my lord, and the total according to my friend is $6,005,807. Now as shown by this exhibit, the last page, the dividends paid by these companies in the same period were $5,692,275.92; that is an average of $355,000 a year or less than 5 per cent per annum.

THE WITNESS: On the ten years?

MR. KELLOCK: For the ten years.

THE WITNESS: Yes.

BY MR. KELLOCK: Q. I want to ask you one other question, Mr. Howson, on Exhibit 376.

A. Is that this present one?

Q. Yes. Please look at the page which

THE COMMISSIONER: Where abouts is that?

MR. KELLOCK: It is the sixth page from the front, my lord.

BY MR. KELLOCK: Q. Your key in the upper

left hand corner, Mr. Howson, shows "3 - ratio, total net profit to sales," and then you drop down to Belding-Corticelli Limited, and you find in the third column 5.9 per cent for 1926. I understand from that that the total net profits of this company to sales for the year 1926 was 5.9 per cent. A. Yes.

Q. Now if you look at exhibit 907, on the second page, which deals with Belding-Corticelli Company, the last figure under the year 1926, which is in the first column, showing net profit to sales, is 4.9 per cent, and the same thing runs all the way through these exhibits. How do you recognize those two?

THE COMMISSIONER: I notice that in Exhibit 907 the percentage to common stock equity is 5.9.

MR. KELLOCK: That is not the same thing.

THE COMMISSIONER: It happens to be the same figure. Does that explain anything?

MR. KELLOCK: I do not think so. This is net profit percentage to sales.

THE COMMISSIONER: I know, but does this explain what happened?

MR. KELLOCK: I do not think so. The next year would not work out that way, my lord.

BY MR. KELLOCK: Q. Is there some factor taken out in one Exhibit and not taken out in the other, Mr. Howson? A. The difference is outside income.

BY THE COMMISSIONER: Q. Outside income? A. Yes, it is added in this percentage in the operating ratios.

Q. This applies only to sales? A. Yes.

left hand corner, Mr. Howson, shows "3 - Tests, total net profit to sales," and then you drop down to Balding-Cortissell Limited, and you find in the thir- that that the total net profits of this company to sales for the year 1956 was 5.9 per cent. A. Yes.

Q. Now if you look at exhibit 907, on the second page, which deals with Balding-Cortissell Limited, the last figure below the year 1956, would is in the first column, showing net profit to sales, is 4.9 per cent, and the same thing runs all the way through these exhibits. How do you reconcile those two?

THE COMMISSIONER: I notice that in Exhibit 907 the percentage to common stock equity is 5.9.

MR. MILLOCK: That is not the same thing.

THE COMMISSIONER: It happens to be the same figure. That is strictly coincidental.

MR. MILLOCK: I do not think so. That is net profit percentage to sales.

[illegible]

MR. MILLOCK: I do not think so. The next year would not work out that way, my lord.

BY MR. MILLOCK: Q. Is there some factor taken out in one Exhibit and not taken out in the other, Mr. Howson? A. The difference is one- side income.

BY THE COMMISSIONER: Q. Outside income?

A. Yes, it is added in this percentage in the [illegible].

Q. This applies only to sales? A. Yes.

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Q. This Exhibit here gives the ratios having to do with sales.

BY MR. KELLOCK: Q. How can that be your revenue from investments in that year? A. It is not correct.

Q. But your explanation is not correct, is it? What I am pointing out is this. Your revenue from investments in 1926 was $7,900. Now the difference between 4.9 per cent and 5.9 per cent is one per cent, and one per cent of the net profit which you show for the year, $157,000 is not $7,900. My suggestion is, Mr. Howson, that it is either taking depreciation or bond interest out in the one case and leaving it in in the other, and calling the same thing net profit.

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-- The Commission adjourned for a short recess.

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On resuming.

BY MR. KELLOCK: Q. Have you straightened that out, Mr. Howson? A. Yes, I was a little confused. I was thinking one is net profit to sales and the other is the total net profit to sales, and it includes the net trading profit on sales, revenue from investments, and what they term miscellaneous revenue, which that year ran to $26,157.

THE COMMISSIONER: You are speaking about Exhibit 916, are you ?

THE WITNESS: Yes.

THE COMMISSIONER: Your heading is "Total net

Q. This Exhibit here gives the terms having to do with sales.

BY MR. KELLOCK: Q. How can that be your revenue from investments in that year? A. It is not correct.

Q. But your explanation is not correct, is it? What I am pointing out is this. Your revenue from investments in 1956 was $7,800. Now the difference between 4.9 per cent and 5.9 per cent is one per cent, and one per cent of the net profit which you show for the year, $107,000 is not $7,800. My suggestion is, Mr. Howson, that it is either taking depreciation or bond interest out in the one case and leaving it in in the other, and getting the same thing net profit.

-- The Commission adjourned for a short recess.

On resuming.

BY MR. KELLOCK: Q. Have you straightened that out, Mr. Howson? A. Yes, I was a little confused. I was thinking one is net profit to sales and the other is the total net profit to sales, and it includes the net trading profit on sales, revenue from investments, and what they term miscellaneous revenue, which that year ran to $16,137.

Q. And was?

A. Yes.

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profit to sales." Why do you call it that?

THE WITNESS: It might have been a little clearer, in view of the other term, to have called it "Total net revenue."

THE COMMISSIONER: That is what it really is.

THE WITNESS: Yes, total net revenue. That would have been a much clearer description.

BY MR. KELLOCK: Q. The figure you use in Exhibit 907 differs from the figure in Exhibit 916. A. By income from investments and the mill rents.

BY THE COMMISSIONER: Q. Mill rents? A. Yes.

Q. What do you mean by that? A. I do not know but I fancy it is a rental which the company gets for space rented in their mills, for unused space that some other mill is using.

Q. That is what they call it? A. That is what they call it.

BY MR. KELLOCK: Q. How many companies in these exhibits are in receipt of mill rents? A. This is the only one I can recall.

Q. When you say "this", you mean Belding-Corticelli? A. Yes.

Q. Now may I take the Bruck Company for the same year, the next sheet over in Exhibit 907. The percentage you show there is 5.3, and in Exhibit 916 it is 4.6 per cent. The difference there is .7 per cent, and in that year the Bruck Company had no revenue from outside investments at all.

THE COMMISSIONER: What year are you talking of?

MR. KELLOCK: 1926, the same year, my lord.

profit to miss." Why do you call it that?

THE WITNESS: It might have been a little clearer, in view of the other term, to have called it "rental less expenses."

THE COMMISSIONER: That is what it really is.

THE WITNESS: Yes, total net revenue. That would have been a much clearer description.

BY MR. ADLOOM: Q. The figure you use in Exhibit 907 differs from the figure in Exhibit 906.

A. By income from investments and the mill rents.

Q. What do you mean by that? A. I do not know but I think it is a rental which the company gets for space rented in their mills, for unused space that some other mill is using.

Q. That is what they call it? A. That is what they call it.

BY MR. KILGOUR: Q. How many companies in these exhibits are in receipt of mill rents?

A. This is the only one I can recall.

Q. When you say "this", you mean Belding-

A. Yes.

Q. Now may I take the Brush Company for the same year, the next sheet over in Exhibit 907. The percentage you show there is 5.3, and in Exhibit 906 it is 4.6 per cent. The difference there is .7 per cent, and in that year the Brush Company had no revenue from outside investments at all.

THE COMMISSIONER: What years are you taking as

MR. KILGOUR: 1926, the same year, My Lord.

THE COMMISSIONER: And you point out what?

MR. KELLOCK: On Exhibit 907 the figure for the Bruck Company, at the foot of the page, is 5.3 per cent.

THE COMMISSIONER: That is right.

MR. KELLOCK: And on Exhibit 916 the figure is 4.6 per cent, and Mr. Howson says that there is no mill ren in the case of this company, and Exhibit 907 shows that this company had no revenue from outside investments that year.

THE COMMISSIONER: Here the reverse happens. The percentage is less here. In the case of Belding Corticelli it was the other way around.

MR. KELLOCK: Yes, my lord.

THE COMMISSIONER: Here the net profit percentage to sales is 5.3, but the total net revenue of the company is only 4.6. There is a deduction there instead of an addition.

THE WITNESS: That item of interest on loans, $4,185.

BY MR. KELLOCK: Q. Why would you take it off? Is it a net profit on one exhibit? Why would you take out interest on loans in the one case and not in the other?

THE COMMISSIONER: How do you know it is taken out?

MR. KELLOCK: The witness says it is the difference.

THE WITNESS: I say in this case there is an item of interest on loans.

BY THE COMMISSIONER: Q. And there was not in the other case? A. There was not in the other case.

Mr. Cowan: And you point out what?

A. Exhibit 907 the figure for the Bruce Company, at the foot of the page, is 5.3 per cent.

The Commissioner: That is right.

A. Exhibit 916 the figure is 4.9 per cent, and Mr. Bowen says that there is no mill run in the case of this company, and Exhibit 907 shows that this company had no revenue from [illegible].

The Commissioner: Here the revenue happens to arise is less here. In the case of Welling sometimes it was the other way around.

The Commissioner: Here the net profit percentage to sales is 5.3, but the total net revenue of the company is only 4.6. There is a deduction there instead of an addition.

MR. EDWARDS: That item of interest on loans, [illegible].

BY MR. KELLOCK: Q. Why would you take it off? Is it a net profit on one exhibit? Why would you take out interest on loans in the one case and not in the other?

THE COMMISSIONER: How do you know it is taken off?

A. KELLOCK: The witness says it is the difference.

[illegible] item of interest on loans.

BY THE COMMISSIONER: Q. And there was not in the other case? A. There was not in the other

Q. You are getting at the net revenue of the company in this exhibit?

MR. McRUER: Probably if we changed this to ratio of revenue to sales, it would be clearer.

THE WITNESS: It would be clearer.

THE COMMISSIONER: I do not see what "sales" is inserted there for at all.

THE WITNESS: That is the basis on which the percentage is set.

MR. KELLOCK: It is all in relation to sales, my lord.

THE COMMISSIONER: But you are adding other things to sales or taking them off. "Total net revenue of the company", is that the proper way to put it?

THE WITNESS: It would be if we were showing it in dollars and cents.

THE COMMISSIONER: I see what you mean.

THE WITNESS: We are showing what the percentage is based on.

BY MR. KELLOCK: Q. If we speak about the net profits of a company that does its own weaving but does not do its dyeing, the wages that that company would pay in comparison with a company which not only does its own weaving but its own dyeing as well would be very much less, would it not? A. The distribution in wages that that company makes would be less, yes.

Q. A company that has a dyeing house, its wage bill in relation to its sales or output would be very much larger, or larger at least than in the case of a company that did not do its own dyeing?

Q. You are getting at the net revenue of the company in this exhibit?

MR. [illegible]: Probably if so changed this to ratio of revenue to sales, it would be clearer.

THE WITNESS: It would be clearer.

THE COMMISSIONER: I do not see what "sales" is inserted there for at all.

THE WITNESS: That is the basis on which the percentage is set.

MR. KELLOCK: It is all in relation to sales, my lord.

THE COMMISSIONER: But you are adding other things to sales or taking them off. "Total net revenue of the company", is that the proper way to put it?

THE WITNESS: It would be if we were showing it in dollars and cents.

THE COMMISSIONER: I see what you mean.

THE WITNESS: We are showing what the percentage is based on.

BY MR. KELLOCK: Q. If we speak about the net profits of a company that does its own weaving but does not do its dyeing, the wages that that company would pay in comparison with a company which not only does its own weaving but its own dyeing as well would be very much less, would it not? A. The distribution in wages that the company sales would be less, yes.

Q. A company that has a dyeing house, its wages

A. Obviously it would be larger because they conduct another operation themselves.

MR. McRUER: But the dyeing may be profitable, and if you are determining profits to wages --

THE WITNESS: That is a matter of policy, I suppose, for the company.

BY MR. McRUER: Q. That is one thing in regard to the statement for Grout's Limited, Exhibit 907, the last page. Although there are two companies included in this statement for 1934 and 1935 -- that is correct, is it not? -- there is the Valleyfield Company ? A. Yes.

Q. It was all capital that was supplied by the Grout Company, was it not? A. I understand so.

MR. KELLOCK: That is not right, not according to the evidence.

MR. McRUER: All right. There was no introduction of capital except $100,000 in bonds.

MR. KELLOCK: Oh yes. That was not bonds. That evidence was all given at St, Catharines, and the only contribution to capital that Grout's Company made was $100,000.

MR. McRUER: There was not another contribution to the capital, there were no subscriptions for stock.

MR. KELLOCK: If you recall the evidence, my lord, it was this, that the contribution to the capital of the Grout Company was these liens which cost them approximately $100,000, but the rest of the capital, the plant and machinery and everything else was contributed by outside parties.

MR. McRUER: You say contributed by outside parties Nobody subscribed to stock.

A. Obviously it would be larger because they conduct another operation themselves.

and if you are determining profits to wages --

MR. MACDONALD: That is a matter of policy, I suppose, for the company.

MR. MORDEN: Q. That is one thing in regard to the statement for Grout's Limited, exhibit 907, the last page. Although there are two companies included in this statement for 1954 and 1955 -- that is correct, is it not? -- there is the

Yes.

Q. It was all capital that was supplied by the Grout Company, was it not? A. I understand so.

MR. MACLOCK: That is not right, not according to the evidence.

MR. MORDEN: All right. There was no subscription or capital except $100,000 in bonds.

MR. MACLOCK: Oh yes. That was not bonds. That evidence was all given at St. Catherines, and the only contribution to capital that Grout's Company made was $100,000.

MR. MACLOCK: If you recall the evidence, my lord, the Grout Company was these liens which cost them approximately $100,000, and the rest of the capital, the plant and machinery and everything else was contributed by outside parties.

MR. KELLOCK: They were given stock for the assets which they turned in.

MR. McRUER: Who were ?

MR. KELLOCK: The guarantors for the bonds. That evidence was given in St, Catharines.

MR. McRUER: If it is in we can look it up and deal with it.

MR. KELLOCK: $375,000 came from other people.

MR. McRUER: Has everybody in connection with Belding-Corticelli gone? We still have not had the question answered as to what was given for the alleged good will. Your company, Mr. Kellock, can answer that, and what they got for it. My opinion is that there was $1,000,000 made in the spread by the Dominion Bond Company, and I had intended to ask them one or two more questions about the inventory. Have they gone back to Montreal?

MR. KELLOCK: As far as I know. You have Mr. Shepherd down in Montreal looking into the inventory.

MR. McRUER: I know, but Mr. MacDougall said that Mr. Pollock would know about it.

MR. KELLOCK: He went away yesterday.

MR. McRUER: That is all right.

BY MR. McRUER: Q. Now, Mr. Howson, my friend was suggesting to you that income tax was an expense of the business. If income tax is regarded as an expense of the business, then that would be passed on to the consumer, would it not? A. It would be taken into account in the costs I presume, and treated as an expense.

Q. It is to be regarded as one of two things. If it is regarded as an expense of the business

MR. KELLOCK: They were given stock for the assets which they turned in.

MR. [illegible]: Why were?

MR. KELLOCK: The guarantors for the bonds.

That evidence was given in St. Catherines.

MR. McRUER: If it is in we can look it up and deal with it.

MR. KELLOCK: $875,000 came from other people.

MR. McRUER: Has everybody in connection with Holding-Corticelli gone? We still have not had the question answered as to what was given for the alleged good will. Your company, Mr. Kellock, can answer that, and what they got for it. My opinion is that there was $1,000,000 made in the spread by the Dominion Bond Company, and I had intended to ask them one or two more questions about the inventory. Have they gone back to Montreal?

MR. KELLOCK: As far as I know. You have Mr. Shepherd down in Montreal looking into the inventory.

MR. McRUER: I know, but Mr. Macdougall said that Mr. Pollock would know about it.

MR. KELLOCK: He went away yesterday.

MR. McRU R: That is all right.

BY MR. McRU R: Q. Now, Mr. Howson, my friend was suggesting to you that income tax was an expense of the business. If income tax is regarded as an expense of the business, then that would be passed on to the consumer, would it not? A. It would [illegible] regarded in the same [illegible] treated as an expense.

Q. It is to be regarded as one of two things. If it is regarded as an expense of the business

a firm that has taken it into its expense account and into its costs would pass it on to the consumer? A. That is if it were treated as an expense.

THE COMMISSIONER: It is only there when there is a profit made. How can you call it an expense of the business.

MR. McRUER: I do not know how they can, but my friend is suggesting it, and if they expect us to pay the income tax of these companies we are going to object.

MR. KELLOCK: Who do you mean by "us" ?

MR. McRUER: Us poor consumers.

THE COMMISSIONER: It is a direct tax, not an indirect tax.

MR. McRUER: Yes, a tax on income.

THE COMMISSIONER: It is essentially a direct tax. It is not something to be passed on to the consumer.

MR. McRUER: I never thought so, but that was evidently the impression that the company had.

THE COMMISSIONER: If you pass it on to the consumer you would thereby increase your profits and have more profits to tax. If somebody else pays your income tax for you, you have that much more income. That is the test. It is not meant to be passed on to somebody else.

MR. McRUER: My friend was sort of scolding Mr. Howson for setting up the profits separately, but I think he is quite right.

BY MR. McRUER: Q. In regard to the question of depreciation, Mr. Howson, my friend asked you some questions about depreciation and dealt with whether it was a necessary element in the expenses of

a firm that has taken it into its earning account and into its costs would pass it on to the consumer?

A. That is if it were treated as an expense.

THE COMMISSIONER: It is only there when there is a profit made. How can you call it an expense of the business.

MR. MORGAN: I do not know how they can, but my friend is suggesting it, and if they expect us to pay the income tax of these companies we are going to object.

MR. ARNOUP: Who do you mean by "we" ?

MR. MORGAN: We poor consumers.

THE COMMISSIONER: It is a direct tax, not an indirect tax.

MR. MORGAN: Yes, a tax on income.

THE COMMISSIONER: It is essentially a direct tax. It is not something to be passed on to the consumer.

MR. MORGAN: I never thought so, but that was evidently the impression that the company had.

THE COMMISSIONER: If you pass it on to the consumer you would thereby increase your profits and have more profits to tax. If somebody else pays your income tax for you, you have that much more income.

[illegible]

BY MR. MORGAN: Q. In regard to the question of depreciation, Mr. Bowman, my friend raised you some questions about depreciation and dealt with whether it was a necessary element in the

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a company. Have you in your investigations of these companies found whether they did this or not, at certain stages appraised their plants, and then raised the book value of the plant after it had been depreciated for a number of years? A. There are some instances of it.

THE COMMISSIONER: Please repeat that question.

BY MR. McRUER: Q. Have the companies, after depreciating their plants for a number of years, reappraised them at a higher value and put them on the appraised value on their books, and then started to depreciate them again on the higher value? A. They have put them on their books at a higher value. I do not know what the basis of their depreciation is.

Q. You told us that you did not know the basis of their depreciation, but they put them on their books at a higher value? A. Yes.

THE COMMISSIONER: What becomes of depreciation reserve when they do that?

MR. McRUER: That is just an incident in regard to the way in which depreciation has been handled in some cases.

(Page 12489 follows)

(Page 12489 follows)

BY MR. McRUER: Q. Now, we come to cottons. The first company that I propose to deal with is the Wabasso Cotton Company, my lord.

THE COMMISSIONER: Is this the document you are going to use ?

MR.McRUER: Yes, if your lordship will start at the third last page.

THE COMMISSIONER: You are putting this infirst ?

MR.McRUER: Yes, my lord.

THE COMMISSIONER: Well, it is a financial summary of the primary and industrial cottons division.

MR.McRUER: The individual companies.

THE COMMISSIONER: You have "primary and industrial"; what does that mean ?

MR.McRUER: Primary and industrial cottons division.

THE COMMISSIONER: What is the separation there between primary and industrial?

THE WITNESS: It is a sort of general description. I think it was used on the Price Spreads Commission.

MR.McRUER: The Industrial companies are companies fabricating materials for industrial purposes such as the Goodyear Cotton Company ? A. And the Cosmos Imperial Company, materials for beltings and things of that sort.

BY THE COMMISSIONER: Q. They supply other manufacturers ? A. Yes.

MR.McRUER: Yes, my lord.

THE COMMISSIONER: It will be Exhibit 917.

EXHIBIT No. 917: Financial summaries,primary and industrial cottons division.

BY MR. MORGAN: Q. Now, we come to cottons. The first company that I propose to deal with is the [illegible] Cotton Company, my Lord.

THE COMMISSIONER: Is this the document you are going to use ?

MR. MORGAN: Yes, if your lordship will start at the third last page.

THE COMMISSIONER: You are putting this in first ?

MR. LEWIN: Yes, my lord.

THE COMMISSIONER: Only, it is a financial summary of the primary and industrial cottons division.

MR. MORGAN: The individual companies.

THE COMMISSIONER: You have "primary and industrial" ?

MR. MORGAN: Primary and industrial cottons divi-sion.

THE COMMISSIONER: What is the separation there ?

THE WITNESS: It is a sort of general description. I think it was used on the [illegible] Division.

MR. MORGAN: The Industrial companies are concerned fabricating materials for industrial purposes such as the Goodyear Cotton Company ? A. And the Dunlop Imperial Company, materials for belting and things of that sort.

BY THE COMMISSIONER: Q. They supply other manufacturers ? A. Yes.

MR. MORGAN: Yes, my lord.

THE CLERK OF [illegible]: It will be exhibit 917.

MR.McRUER: If your lordship will turn to the third last page you will find the pages referring to the Wabasso Cotton Company.

THE COMMISSIONER: And subsidiaries, or subsidiary, one subsidiary ?

MR.McRUER: Yes, my lord. The first item on this statement, Mr. Howson, in regard to capital stock, Wabasso issued in 1907 for property $487,000.

THE COMMISSIONER: Pardon me a moment; where are you ?

MR.McRUER: That is the first item.

THE COMMISSIONER: 1926 ?

MR.McRUER: In 1907. I wonder if your lordship has got the right sheet. Turn one sheet further back, it is over on another sheet.

THE COMMISSIONER: Oh yes, I see, all right.

BY MR. cRUER: Q. Later on you have "Deduct excess of capital issued over original cost of assets exchanged therefor, Wabasso, $487,000." A. Yes.

Q. You take that out altogether ? A. Yes.

Q. Then, you have "Issued in 1907 for cash $13,000." so that of the $500,000 in stock issued in 1907 , $13,000. in cash was all that was paid in cash? A. Yes.

Q. Mr. Whitehead told us that it was all bonus stock except that. Then, you have "Issued in 1912 for St.Maurice shares $1,250,000." Now, unless we know the capital history of the St.Maurice company that figure is probably a little misleading. Do you know what the capital stock was of the St.Maurice Company ?

MR.WOLF R: If your honors will turn to the

subsidiary, and subsidiaries, or

me subsidiary ?

MR.WOLF R: Yes, my lord. The first item on this

tement, Mr. Howson, in regard to capital stock,

bsco issued in 1907 for property $497,300.

THE COMMISSIONER: Pardon me a moment; where are

MR.WOLF R: That is the first item.

THE COMMISSIONER: Then ?

MR.WOLF R: In 1907. I wonder if your lordship

has got the right sheet. Turn one sheet further back,

it is over on another sheet.

THE COMMISSIONER: Oh yes, I see, all right.

BY MR. [illegible]: Q. Later on you have "Deduct ex-

cess of capital issued over original cost of assets

exchanged therefor, Webasco, $497,000." A. Yes.

Q. Then, you have "Issued in 1907 for cash

$13,000." so that of the $800,000 in stock issued in

1907 , $13,000. in cash was all that was paid in cash?

A. Yes.

Q. Mr. Whitehead told us that it was all borne

stock except that. Then, you have "issued in 1908 for

St.Maurice shares $1,280,000." Now, unless we know

the capital history of the St.-Maurice company that $1-

,000 is probably a little misleading. Do you know what

A. Do you want to put in these things ?

Q.Oh I see, I haven't put in the questionnaires yet either.

THE COMMISSIONER: The document you are referring to there now is in ?

MR.McRUER: Yes.

THE COMMISSIONER: And the next is the questionnaires ?

MR. McRUER: Yes, I will have to put in the questionnaires, the answers to the questionnaires.

THE COMMISSIONER: The questionnaire will be Exhibit 918.

MR.McRUER: That is the Wabasso Company?

THE COMMISSIONER: Yes, that is just the one company, the Wabasso.

EXHIBIT No. 918: Questionnaire referring to Wabasso Cotton Company.

MR.McRUER: Then, We will put in the answers to the questionnaire of the St.Maurice Company.

THE COMMISSIONER: 919.

EXHIBIT No. 919: Questionnaire referring to St.Maurice Valley Cotton Mills,Limited.

THE WITNESS: And the financial statements ?

MR.McRUER: Have those not been put in, the financial statements of the Wabasso Cotton Company ?

ASSISTANT SECRETARY RENE: Yes, I think so.

SECRETARY WHITELEY: Yes, Exhibit 74, from 1922 to 1935.

MR.McRUER: We want to go back further than that. Well, I will put these in now, and we will just have them here where we want them.

A. Do you want to put in these things ?

Q. Oh I see, I haven't put in the questionnaires ve either.

THE COMMISSIONER: The document you are referrin to there now is in ?

MR. MONK: Yes.

THE COMMISSIONER: And the next is the question-

MR. MONK: Yes, I will have to put in the questionnaires, the answers to the questionnaires.

THE COMMISSIONER: The questionnaire will be Exhibit 218.

MR.MONK: That is the Wabasso Cotton Company?

THE COMMISSIONER: Yes, that is just the Wabasso company, the Wabasso.

MR.MONK: Then, we will put in the answers to the questionnaires of the Wabasso Company.

THE REGISTRAR: 218.

EXHIBIT No. 218: Questionnaire referring to Mr.Maurice Valiquette

THE WITNESS: And the financial statements ?

MR.MONK: Have these not been put in, the financial statements of the Wabasso Cotton Company ?

ASSISTANT COMMISSIONER RANK: Yes, I think so.

SUCHARTABY WHITELEY: Yes, Exhibit 74, from 1933 to 1938.

MR.MONK: We want to go back further than that.

THE COMMISSIONER: You are putting in something else ?

MR.McRUER: Well now, I just want to make reference here, my lord, to Exhibit No. 74, which is the financial statements of the Wabasso Cotton Company from 1922 to 1935.

THE COMMISSIONER: Yes, the annual reports.

MR.McRUER: The annual reports, yes; then, I want to file now the financial statements from 1913 to 1921 inclusive.

THE COMMISSIONER: What year do you begin ?

MR.McRUER: 1913, my lord.

THE COMMISSIONER: To when ?

MR.McRUER: To 1921, and that will complete it.

THE COMMISSIONER: Yes, that is so.

MR. KELLOCK: Part of the same Exhibit ?

THE COMMISSIONER: No, it will go in here. That will be Exhibit 920.

EXHIBIT No. 920: Financial statements of Wabasso Cotton Company from 1913 to 1921 inclusive.

BY MR.McRUER: Q. Now then, to go back to my question again in refernce to Exhibit 917, that is the consideration that had been given for the shares in the St.Maurice Company by the promoters of that company? A. The only consideration that we have been able -- tangible consideration which we have been able to locate is $125,000.

BY THE COMMISSIONER: Q. $125,000.? A. $125,000.

Q. Is that besides these shares, this stock, issued ? A. No, that was what the company got

THE COMMISSIONER: That is so.

MR. MORIN: To 1921, and that will complete it.

THE COMMISSIONER: Yes, that is so.

MR. KENNEDY: Part of the same Exhibit ?

THE COMMISSIONER: No, it will go in here.
will be Exhibit 930.

EXHIBIT No. 930: Financial statements of
Webbwood Cotton Company for
1919 to 1921 inclusive.

BY MR.MORIN: Q. Now then, to go back to my
question again in reference to EXHIBIT 91Y, that is
consideration that had been given for the shares in
the St.Maurice Company by the promoters of that com-
pany? A. The only consideration that we have
been able -- tangible consideration which we have
been able to locate is $125,000.

BY THE COMMISSIONER: Q. $125,000.? A.
$125,000.

for the stock issued.

Q. Which company ? A. The St.Maurice Company.

Q. Just a minute. In the capital stock of the Wabasso Company you have in that "Issued in 1912 for St.Maurice shares $1,250,000." A. Yes, that is right, they got from the St.Maurice Company $1,250,000.

Q. They got from the St.Maurice Company ?

A. Yes.

MR.McRUER: Probably I can recall to your lordship the evidence that was given at Three Rivers as I recollect it. That was this, that the St.Maurice Company was incorporated and that all the common stock was given away either as a bonus to the promoters or with the bonds. Certain percentages -- that is all in evidence -- were given away with the bonds. Then, they entered into an agreement with -- I think it was the Quebec Trust Company who were acting on behalf of certain interests, a syndicate, which I think are the same people who promoted the Wabasso Company, that the shares in the St.Maurice Company should be taken up by the Wabasso Company --

THE COMMISSIONER: Taken up in exchange for what ?

MR.McRUER: For Wabasso stock, in consideration of them issuing Wabasso stock for the St.Maurice stock and paying to these promoters $125,000. that was owing to them for money having been advanced to the St. Maurice Company. Now, that is my recollection of the transaction.

THE COMMISSIONER: I think that is mine too.

MR.McRUER: I have a memorandum that I had

for the stock issued.

4. Which company ? A. The St.Maurice Company.

Wabasso Company you have in that issued in 1913 for St.Maurice shares $1,250,000. " A. Yes, that is right, they got from the St.Maurice Company $1,250,000.

Q. They got from the St.Maurice Company ?

A. Yes.

MR.[illegible]: Probably I can recall to your Lordship the evidence that was given at three hours as I recollect it. What was this, that the St.Maurice Company was incorporated and that all the common stock was given away either as a bonus to the promoters or with the bonds. Certain percentages -- that is all in evidence -- were given away with the bonds. Then, they entered into an agreement with -- I think it was the Quebec Trust Company who were acting on behalf of certain interests, a syndicate, which I think are the same people who promoted the Wabasso Company, that the shares in the St.Maurice Company should be taken up by the Wabasso Company --

THE CHAIRMAN: Taken up in exchange for what ?

MR.MONK: For Wabasso stock, in consideration of them issuing Wabasso stock for the St.Maurice stock to them for money having been advanced to the St.[illegible] transaction.

THE CHAIRMAN: I think that is mine too.

dictated.

THE COMMISSIONER: Then we have here "Issued in 1912 for St.Maurice shares $1,250,000." That means shares in the Wabasso Company ? A. Yes.

MR.McRUER: Yes, that is stock that was given to these people for the St.Maurice stock. Then, Wabasso became owners of the St.Maurice property.

THE COMMISSIONER: For that and this other payment of $125,000.

MR.McRUER: Yes, and the other payment of $125,000., so that Mr. Howson shows the consideration for these sums to have been $125,000. I don't know whether that has ever been traced down to the last point or not, how that was worked out. Mr. Whitehead gave some evidence about it, but while it appears here as being issued for St.Maurice shares it is a sort of circle that things went in. Then, in 1927 there was issued for cash $1,050,000., and in 1928, $1,392,240. Now, you deduct --

THE COMMISSIONER: Does that mean all this actual cash was really paid in ?

MR.McRUER: Yes, your lordship will probably recollect there was a sort of split in the shares, and issue made of so many shares for one share of Wabasso, or for one share of Wabasso they would take up so many of the new stock. That cash was actually paid into the company in 1927 by the shareholders at that time, Mr. Howson, that is correct ? A. Yes.

Q. And in 1928 again ? A. Yes.

Q. So that you , if I may say, take out from

dictated.

THE CHAIRMAN: Then we have here issued in 1912 for St.Maurice shares $1,250,000. That means shares in the Wabasso Company ? A. Yes.

MR.MORRISON: Yes, that is stock that was given to these people for the St.Maurice stock. Then, Wabasso became owners of the St.Maurice property.

THE CHAIRMAN: For that and this other payment of $125,000.

MR.MORRISON: Yes, and the other payment of $125,000., so that Mr. Howson shows the consideration for these sums to have been $125,000. I don't know whether that has ever been traced down to the last point or not, how that was worked out. Mr. Whitehead gave some evidence about it, but while it appears here as being issued for St.Maurice shares it is a part of circle that it was went in. Then, in 1927 there was issued for cash $1,080,000., and in 1928, $1,328,840. Now, for what ---

THE CHAIRMAN: Does that mean all this actual cash was really paid in ?

MR.MORRISON: Yes. Your lordship will probably remember for one share of Wabasso they would take up so many of the new stock. That cash was actually paid time, Mr. Howson, that is correct ? A. Yes.

Q. And in 1928 again ? A. Yes.

the capital structure the $487,000. and $1,125,000. in respect to the St.Maurice Stock ? A. Yes.

MR. KELLOCK: I don't follow that, $487,000. is taken out ?

MR.McRUER: Because it was straight bonus stock.

MR.KELLOCK: That is for property.

MR.McRUER: No, what they did was --

THE COMMISSIONER: Well, Mr. Whitehead said they could not sell the bonds unless they gave this bonus stock.

MR. McRUER: They gave some stock with the bonds.

THE COMMISSIONER: They said money was very dear and the rate of interest was high.

MR.KELLOCK: Wasn't that five years later ? That was 1912.

THE COMMISSIONER: No, 1907.

MR.McRUER: What happened in regard to the property was this. He got the agreement with the town of Three Rivers to pay them $75,000. and he got a contract to supply them with electricity. Then, he turned these over to the company for $487,000., and I said to him that was no more -- the contract was one the company might have made and the arrangement with the town of Three Rivers was one the company might have made. He said"yes". He admitted it was just so much promoters stock. He was quite frank about it in the evidence.

MR.KELLOCK: I will have to read it.

BY MR.McRUER: Q. Of course, down to 1927, the company carried on with merely the $13,000. that had been subscribed for the capital stock and the amount th t

the capital structure the $457,000. and $1,185,000.

in respect to the 3%.Service Stock ? A. Yes.

taken out ?

MR. COX: Because it was strongly borne stock.

MR.KELLOCK: That is for property.

MR.HOWSON: No, what they did was --

THE CHAIRMAN: Well, Mr. Whitehead said they could not sell the bonds unless they gave this bonus stock.

MR. HOWSON: They gave some stock with the bond.

THE CHAIRMAN: They said money was very dear and the rate of interest was high.

That was 1912.

MR.HOWSON: What happened in regard to the property was this. He got the agreement with the town of Three Rivers to pay them $75,000. and he got a contract to supply them with electricity. Then, he turned the over to the company for $457,000., and I said to him that was no more -- the contract was one the company might have made and the arrangement with the town of Three Rivers was one the company might have made. He said"Yes". He admitted it was just so much promoters stock.

MR.KELLOCK: I will have to read it.

BY MR.HOWSON: Of course, down to 1927, the company carried on with merely the $15,000. that had been subscribed for the capital stock and the amount it

had been raised on bonds ? A. Apparently.

Q. So that from 1907 to 1927, over that 20-year period we can regard it in that light.

THE COMMISSIONER: That was in 1927 you say ?

MR.McRUER: Yes, my lord. A. The two companies are together, you have combined them, so you have to take in the $125,000. in 1912.

Q. I am willing to do that but I am not altogether sure that we are clear on what happened in regard to that. At any rate, the combined net revenue from the date of inception to June 30th, 1925, was $4,070,883.14 ? A. 823, isn't it ?

Q. $4,070,823.14.

THE COMMISSIONER: Where do I find that figure ?

MR.McRUER: It is in "Adjusted amount for capital stock". So that was the earning on the original investment of not more than $138,000., at any rate.

MR. KELLOCK: And bonds.

THE WITNESS: The bond interest comes off that.

MR.McRUER: The bond interest comes off that so that the net earning on the original investment of $138,000. up to 1925 was $2,303,725. ? A. Yes, after payment of income taxes and bond interest.

Q. Then, "Adjustments to reserves including 200,000 for War Profits Tax of which $136,595.47 reversed in 1932" ? A. Brought it back into surplus account in 1932.

Q. Oh,I see; now, they paid in dividends between 1907 and 1925 before this new capital was introduced into the company $1,170,274.--

had been used on bonds ?

A. Apparently.

Q. So that from 1907 to 1927, over that 20-year period we can regard it in that light.

THE COMMISSIONER: That was in 1927 you say ?

are together, you have combined them, so you have to take in the $158,000. in 1928.

A. I am willing to do that but I am not altogether sure that we are clear on what happened in regard to that. At any rate, the combined net revenue from the date of inception to June 30th, 1928, was $4,070,985.14 ?

A. 985, isn't it ?

Q. $4,070,828.14.

THE COMMISSIONER: Where do I find that figure ?

MR.McMURRY: It is in "Adjusted amount for capital stock". So that was the earning on the original investment of not more than $158,000., at any rate.

MR. KELLOCK: And bonds.

THE WITNESS: The bond interest comes off that.

that the net earning on the original investment of $158,000. up to 1928 was $3,809,785. ? A. Yes, 200,000 for War Profits Tax of which $134,808.47 reversed in 1928" ? A. Brought it back

Q. Oh,I see; now, they paid in dividends between 1907 and 1928 before this new capital was

MR. KELLOCK: No.

MR. McRUER: No, I beg your pardon, paid in dividends $984,375, and they had at that time undistributed surplus of $1,133,450. ? A. Right.

Q. Now, that is the situation at June 30th, 1925, and before any outside capital was introduced except what was advanced for bonds ? A. And this --

Q. And the -- A. And the $138,000.

Q. Then you deal with the operations of the company for 10 years and 10 months to May 2nd, 1936; why in that way, Mr. Howson ? A. That was the period for which they returned.

Q. Pardon ? A. That was the period for which they returned figures in the questionnaire, from 1926 to 1935.

Q. Now, to begin with the statement down to this point deals with the operations before the period covered by your questionnaire ? A. Yes.

Q. Except insofar as you cover it by capital structure and so on ? A. Yes.

Q. We have all that material in evidence already. Now, when we come to the ten-year period, which is nearly eleven years, according to their returns they have a combined net revenue of $3,973,897.97 ? A. Correct.

Q. And then you show how that has been disbursed. They paid out in dividends $701,281.37 ? A. Yes.

BY THE COMMISSIONER: Q. That is dividends, bonuses and interest to shareholders ? A. Yes.

MR. McRUER: Yes.

MR. MONROE: No, I beg your pardon, paid in dividends $994,375, and they had at that time undistributed surplus of $1,158,450. ?

A. Right.

Q. Now, that is the situation at June 30th, 1958, what was covered for bonds ?

Q. And this --

A. And the --

Q. And the $158,000.

Then you deal with the operations of the company for 10 years and 10 months to May 2nd, 1956; why in that way, Mr. Howson ?

A. That was the period for which they returned.

Q. Pardon ?

A. That was the period for which they returned figures in the questionnaire, from 1956 to 1958.

Now, to begin with the statement down to this point deals with the operations before the period covered by your questionnaire ?

A. Yes.

Q. Except insofar as you cover it by capital structure and so on ?

A. Yes.

Q. We have all that material in evidence already, now, when we come to the ten-year period, which is

A. Correct.

Q. And then you show how that has been disposed. They paid out in dividends $203,801.87 ?

A. Yes.

BY THE COMMISSIONER:

Q. That is dividends,

changes and interest to shareholders ?

A. Yes.

BY THE COMMISSIONER: Q. What is interest to shareholders ? A. They paid interest -- the payments on these subscriptions were spread over a period and apparently they paid interest instead of dividends on the broken period, you see.

MR. KELLOCK: How can that be net revenue when you have to pay interest on loans and interest on bonds out of this ? Is that the correct term, net revenue, combined net revenue ? A. It is just a term.

Q. It is a term ? A. Yes.

MR. McRUER: It is quite plain at any rate, what deductions are made. Then, the surplus at the end of the ten-year period was reduced by $126,885.? A. Yes.

Q. Then, I notice an item "Adjustments, reserves, etc."; what does that mean, $112,000.? A. There are a number of items, transactions between some of their subsidiary companies. That item of war profits tax comes back into it and there are various adjustments from year to year they just show through this reserve account.

Q. It seems to be a deduction from the net revenue ? A. Yes, it is a net charge.

Q. Over the total period; then, what I am more concerned about, you have undistributed surplus and general reserve which amount to $1,006,564.78. Then, you have "Other unused reserves" ? A. Yes.

Q. "For inventories and cash discounts" ? A. Yes.

Q. $365,500.; how was that inventory reserve set up ? A. Set up out of profits.

Q. Set up out of profits and would be a charge

BY THE CHAIRMAN: Q. What is interest to shareholders? A. They paid interest -- the payments on these subscriptions were spread over a period and apparently they paid interest instead of dividends on the broken period, you see.

MR. BLOCK: How can that be net revenue when you have to pay interest on loans and interest on bonds out of this? Is that the correct term, net revenue, combined net revenue? A. It is just a term.

Q. It is a term? A. Yes.

MR. CHAIRMAN: It is quite plain at any rate, what deductions are made. Then, the surplus at the end of the ten-year period was reduced by $126,965.? A. Yes.

Q. Then, I notice an item "Adjustments, reserves, etc."; what does that mean, $112,000.? A. There are a number of items, transactions between some of their subsidiary companies. That item of war profits tax comes back into it and there are various adjustments from year to year. They just show through this

Q. It seems to be a deduction from the net revenue? A. Yes, it is a net charge.

Q. Over the total period; then, what I am concerned about, you have undistributed surplus and general reserve which amount to $1,000,564.78. Then, you have "Other unused reserves"? A. Yes.

Q. $565,500.; how was that inventory reserve set

before you arrive at the net revenue you have shown above ? A. Yes, and thesame way with the investment reserve.

Q. Then, there was an investment reserve. Has this company large outside investments ? A. It has some, yes.

Q. I wonder how much their outside investments amounted to over this period ?

BY THE COMMISSIONER: Q. Well, why is the investment reserve $353,000.? A. That is the amount that stands to the credit.

Q How is it made up ? A. I don't know just what basis it is.

Q. You don't know what it is for ? A. Except it is tagged that way as being a reserve set aside against the investments that the company is carrying to protect itself, I suppose, against losses on the investment.

MR.McRURR: Where are their investments shown so I may know how careful they are.

BY THE COMMISSIONER: Q. Is it shown anywhere what their income from investments is ? A. Yes, the statement shows that.

MR.McRUER: The next page, the revenue from outside investments amounts in 1936 to $11,680.

THE COMMISSIONER: Where do you find that ? Oh yes, revenue from outside investments $61,000.

MR.McRUER: That is in 1926, and in 1936 it is $11,680.

THE COMMISSIONER: It is away down.

before you arrive at the net revenue you have shown above ? A. Yes, and thereafter by with the invest-

Q. Then, there was an investment reserve. Has this company large outside investments ? A. It has some, yes.

Q. I wonder how much their outside investments amounted to over this period ?

BY THE COMMISSIONER: Q. Well, why is the investment reserve $500,000.? A. That is the amount that stands to the credit.

Q. How is it made up ? A. I don't know just what basis it is.

Q. You don't know what it is for ? A. Except it is tagged that way as being a reserve set aside against the investments that the company is carrying to protect itself, I suppose, against losses on the

I may know how created they are.

BY THE COMMISSIONER: Q. Is it shown anywhere what their income from investments is ? A. Yes,

MR.MCCANN: The next page, the revenue from outside investments in 1929 is $1,650.

BY THE COMMISSIONER: Where do you find that ?

MR.MCCANN: That is in 1929, and in 1928 it is $1,650.

BY THE COMMISSIONER: It is very low.

THE WITNESS: This is a combination statement of the two companies.

BY MR.McRUER: Q. Pardon ? A. This is a combination statement of the two companies.

THE COMMISSIONER: This last one would be about 5 per cent on about $320,000. wouldn't it ?

MR. McRUER: Yes.

BY THE COMMISSIONER: Q. What is there a reserve for against that of $333,000.? A. There is no intimation as to what is the basis of the reserve.

MR. KELLOCK: That must be the difference between the cost of the investments and --

MR. McRUER: No, it is nothing of the kind. They wrote it off out of profits.

THE COMMISSIONER: You have $320,000., say, invested outside. I am putting it that way as an illustration and the interest on it is $11,000. That is last year, What is meant by having a reserve against that of $353,000.?

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THE CHAIRMAN: This is a combination statement of the two companies.

BY MR.MORGAN: Q. Pardon ? A. This is a combination statement of the two companies.

THE COMMISSIONER: That last one would be about 5 per cent on about $250,000. wouldn't it ?

BY THE COMMISSIONER: Q. What is there a reserve for against that of $265,000.? A. There is no information as to what is the basis of the reserve.

MR. MILLOY: That must be the difference between the cost of the investments and --

MR. MORGAN: No, it is nothing of the kind. They wrote it off out of profits.

vested outside. I am putting it that way as an illustration and the interest on it is $11,000. That is last year. What is meant by having a reserve against that of $250,000.?

THE WITNESS: They have other investments in subsidiary companies?

THE COMMISSIONER: Oh. Was there not only one subsidiary company, the St. Maurice?

THE WITNESS: No, there is the Shawinigan Cotton Company, which is not a wholly owned company throughout the whole period. The St. Maurice Company shows $214,821.46 in 1936.

THE COMMISSIONER: That is independent?

THE WITNESS: That is an independent statement. St. Maurice and Wabasso were two companies in name only. They had the same building.

MR. McRUER: I do not think we need worry about it, so far as I am concerned, for the purpose of determining the profits of this company because we are not much concerned whether they speculate in the stock market and lose or not. That is another kind of business that we are not engaged in investigating at the moment. What we are concerned in is that they appropriated from the profits of the company for their investment reserve $353,839.74, and for inventory reserve $365,500.

BY MR. McRUER: Q. Is that the position of the inventory reserve today, $365,500, or has it been drawn on in the meantime? A. That is the position of the inventory reserve on May 2, 1936.

Q. Because what I recollect is that Mr. Whitehead gave us evidence that they suffered a very severeloss in inventory in 1932, and that is one of the reasons their statement showed so badly in 1932, which according to your statement, Mr. Howson, shows a net loss from operations of $387,000 in 1932.

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A. They apparently called on the inventory reserve that was outstanding at the end of the preceding year to the extent of $250,000. There is no inventory reserve at the end of that year.

Q. They have wiped out the inventory reserve that year? A. In 1932, and they have started up again in 1933 and set up $100,000.

THE COMMISSIONER: That is not shown here.

THE WITNESS: No, that is on their return.

BY MR. McRUER: Q. There was some suggestion I think that they were rather speculating in the market in cotton, rather than running a mill.

MR. KELLOCK: My friend should not make that statement about this company speculating in the stock market and in cotton. I want to object.

MR. McRUER: I have a statement of what they lost in raw cotton.

THE COMMISSIONER: It depends what the evidence was. We heard something in Three Rivers, who was it from?

MR. McRUER: Mr. Whitehead. They changed their manager.

MR. KELLOCK: Was ther any question of speculating in the stock market?

MR. McRUER: Speculating in raw cotton.

MR. KELLOCK: There is no evidence at all of speculating in the stock market.

MR. McRUER: No, I did not say stock market.

MR. KELLOCK: You did earlier.

THE COMMISSIONER: Perhaps what we should say is the commodity market.

MR. McRUER: When I say I am not interested

A. They apparently called on the inventory reserve that it was outstanding at the end of the preceding year to the extent of $230,000. There is no inventory reserve at the end of that year.

Q. They have wiped out the inventory reserve that year? A. In 1930, and they have started up again in 1933 and set up $100,000.

THE COMMISSIONER: That is not shown here.

THE WITNESS: No, that is on their return.

BY MR. MORDEN: Q. There was some suggestion I think that they were rather speculating in the market in cotton, rather than running a mill.

MR. [illegible]: I have already had that statement about this company speculating in the stock market and in cotton. I want to object.

MR. MORDEN: I have a statement of what they lost in raw cotton.

THE COMMISSIONER: It depends what the evidence was. We heard something in Three Rivers, who was it from?

MR. MORDEN: My. Whitehead. They changed their manager.

MR. KELLOCK: Was there any question of speculating in the stock market?

MR. MORDEN: Speculating in raw cotton.

MR. KELLOCK: There is no evidence at all of [illegible].

MR. [illegible]: No, I did not [illegible].

MR. KELLOCK: You did earlier.

THE COMMISSIONER: Perhaps what we should say is the commodity market.

MR. MORDEN: When I say I am not interested

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for the purpose of this investigation in the reserve against investments, I am not concerned whether they need a reserve to protect them against a loss in the stock market. That is not a part of the cotton business. I do not know whether they speculated in the stock market or not.

MR. KELLOCK: Then my friend should not make that statement.

THE COMMISSIONER: The statement he made was that they did something in the way of speculating.

MR. McRUER: That was in raw cotton.

MR. KELLOCK: His statement was that he was not concerned whether the company made any losses by speculating in the stock market.

MR. McRUER: That is what I say, because they have put aside a reserve of $350,000 for investments.

MR. KELLOCK: The innuendo is that they did speculate in the stock market, reversing the evidence.

THE COMMISSIONER: I understand that there is no evidence at all of this company having speculated in the stock market. You are apparently talking about what the evidence is. You say that Mr. McRuer has no right to say what he has said.

MR. KELLOCK: Your Lordship said that there was no evidence about the company speculating in the stock market.

THE COMMISSIONER: I said there was evidence of some irregularity, which was bad business and led to the dismissal of the manager. I think it was the buying of raw cotton.

MR. McRUER: I am glad to agree that there is not any evidence about them speculating in the

for the purpose of his investigation in the reserve against investments, I am not concerned whether they need a reserve to protect them against a loss in the stock market. That is not a part of the cotton business. I do not know whether they speculated in the stock market or not.

MR. KELLOCK: Then my friend should not make that statement.

THE COMMISSIONER: The statement he made was that they did something in the way of speculating.

MR. MONROE: That was in raw cotton.

MR. KELLOCK: His statement was that he was not concerned whether the company made any losses by speculating in the stock market.

MR. MONROE: That is what I say, because they have put aside a reserve of $850,000 for investments.

MR. KELLOCK: The inference is that they did speculate in the stock market, reversing the evidence.

THE COMMISSIONER: I understand that there is no evidence at all of this company having speculated in the stock market. You are perfectly failing about what the evidence is. You say that Mr. Monroe has no right to say what he has said.

[illegible] stock market.

THE COMMISSIONER: I said there was evidence of some irregularity, which was bad business and [illegible] was the buying of raw cotton.

MR. MONROE: I am glad to agree that there is not any evidence about them speculating in the

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stock market, and I am not saying they did.

MR. KELLOCK: Then my friend should not make any statements about speculating in the stock market.

THE COMMISSIONER: He now says that there is no evidence that this company ever speculated in the stock market.

MR. McRUER: I do say that it is quite immaterial to this investigation what reserve they set up against investments, because they made profits in the operation of the company as a textile company. If they set up a reserve against losses on investments -- I will put it that way; I did put it, losses on the stock market, but I will say losses on investments -- we are not concerned for our purposes with that at all. If they make a profit, they have it, and if they make bad investments it is bad business, but it has nothing to do with the textile business. That is what I am trying to make myself clear on.

THE COMMISSIONER: Do you go so far as to say that some of these figures are explainable by losses made outside the textile industry?

MR. McRUER: I do not know. All I know is that according to the statement they made a profit of $353,000, which has been transferred to a reserve for investments, which may quite clearly be added to their general profits of the business. Now in what year they transferred that I do not know. Was there not a statement, Mr. Whiteley, by Mr. Whitehead, which has not been filed yet, about losses in raw cotton? I think we ought to have that filed

stock market, and I am not saying they did.

MR. HANCOCK: Then my friend should not make

[illegible].

THE COMMISSIONER: He now says that there is no evidence that this company ever speculated in the stock market.

MR. McGUIRE: I do say that it is quite immaterial to this investigation what reserve they set up against investments, because they made profits in the operation of the company as a textile company. If they put up a reserve against losses on investments -- I will put it that way; I did put it, losses on the stock market, but I will say losses on investments -- we are not concerned for our purposes with that at all. If they make a profit, they have it, and if they make bad investments it is bad business, but it has nothing to do with the textile business. That is what I am trying to make myself clear on.

THE COMMISSIONER: Do you go so far as to say that some of these figures are explainable by losses made outside the textile industry?

MR. McGUIRE: I do not know. All I know is that according to the statement they made a profit of $258,000, which has been transferred to a reserve for investments, which may quite clearly be added to their general profits of the business. How in what year they transferred that I do not know. Was there not a statement, Mr. Whiteley, by Mr. Whitehead, which has not been filed yet, about losses in raw cotton? I think we ought to have that filed

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now. I do not remember seeing it, but I know it came in.

BY MR. McRUER: Q. Would it not be correct, Mr. Howson, in dealing with the profits of the business, to regard the reserve that has been set up for investments as an ordinary profit of the business? A. It was created out of profits.

Q. Created out of profits, and the fact that they held it as a reserve against investments has not anything to do with the operations of the business as a textile business? A. It is just an appropriation of profits for this purpose after the profits have been made.

Q. Yes.

BY THE COMMISSIONER: Q. These are profits that might have been distributed otherwise? A. Yes.

BY MR. McRUER: Q. Instead of investing in the shares of other companies they might have distributed them to the shareholders or held them in surplus account to distribute.

MR. KELLOCK: But by doing that they would be incurring losses on capital, which a company is not supposed to do.

MR. McRUER: The profit for the ten year period may be summarized as $701,000 distributed to shareholders; undistributed surplus and general reserve $1,006,000, and reserve for inventory and for investment $719,000.

THE COMMISSIONER: And cash discounts.

MR. McRUER: Yes, my lord, for inventories and cash discounts $719,000. That makes a total of

now. I do not remember seeing it, but I know it came
in.

BY MR. MORDEN: Q. Would it not be correct, Mr. Howson, in dealing with the profits of the business, to regard the reserve that has been set up for investments as an ordinary profit of the business? A. It was created out of profits Q. Created out of profits, and the fact that they held it as a reserve against investments has not anything to do with the operations of the business as a textile business? A. It is just an appropriation of profits for this purpose after the profits have been made.

Q. Yes.

that might have been distributed otherwise?

A. [illegible]

BY MR. MORDEN: Q. Instead of investing in the shares of other companies they might have distributed them to the shareholders or held them in surplus account to distribute.

[illegible]: But by doing that they would be supposed to do.

MR. MORDEN: The profit for the ten year period may be summarized as $701,000 distributed to shareholders; undistributed surplus and general reserve $1,006,000, and reserve for inventory and for investment $710,000.

MR. MORDEN: Yes, my Lord, for investories and over-time $718,000. That makes a total of

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$2,426,000, and capital adjusted so as to eliminate good will or whatever you may call it.- I do not like to use the term "water"-- amounted to $2,580,240 for that period. Am I right?

THE WITNESS: You have related those to the ten-year period, haven't you?

MR. McRUER: Yes.

THE WITNESS: That undistributed surplus and general reserve is the balance.

MR. McRUER: Oh, I see. I beg pardon. You have to take away the balance of $1,133,000.

THE WITNESS: That was there at the beginning.

MR. McRUER: Of the ten-year period, quite right. Then $1,293,000 would be the proper figure for that period.

BY MR. McRUER: Q. According to the next statement, which is a summary of the operations, we find that in the year 1932, for whatever reason it was, there was a net loss of $465,000. Is that right? A. That is right.

THE COMMISSIONER: That is a loss on operations, is it?

MR. McRUER: Yes, my lord.

THE WITNESS: They actually lost more than that. That was the year in which they brought back that credit from the income tax reserve that they had set up in preceding years, $130,000.

BY MR. McRUER: Q. I do not understand,-- It is probably very elementary, Mr. Howson, but in the year 1932 there is a red figure opposite income tax. A. That is just what I was explaining.

$2,486,000, and capital adjusted so as to eliminate
good will or whatever you may call it-- I do not
like to use the term "water"-- amounted to
$2,380,840 for that period. Am I right?

THE WITNESS: You have related those to the
[illegible] year", haven't you?

MR. MONROE: Yes.

material reserve is the balance.

MR. MONROE: Oh, I see. I see perfect. You
have to take away the balance of $1,185,000.

THE WITNESS: That was there at the beginning.

MR. MONROE: Of the ten-year period, quite
right. Then $1,295,000 would be the proper figure
for that period.

BY MR. MONROE: Q. According to the next
statement, which is a summary of the operations,
we find that in the year 1922, for whatever reason
it was, there was a net loss of $465,000. Is that
right? A. That is right.

THE COMMISSIONER: That is a loss on opera-
tions, is it?

MR. MONROE: Yes, my lord.

THE WITNESS: They actually lost more than that.
That was the year in which they brought back that
credit from the income tax reserve that they had
set up in preceding years, $130,000.

[illegible]

It is probably very elementary, Mr. Monson, but
[illegible]
income tax. A. That is just what I was
explaining.

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THE COMMISSIONER: It almost looks like a refund.

BY MR. McRUER: Q. How can you get a debit on your income tax? A. They transferred that reserve back to the credit of that year's operations.

Q. The reserve for income tax? A. The reserve they had set up back in 1928.

Q. I see.

BY THE COMMISSIONER: Q. That does not mean that they paid $132,000 in income tax? A. No, by no means.

MR. McRUER: And it does not mean they got it back from the income tax department.

THE WITNESS: It has been charged to income tax in prior years on their books.

BY MR. McRUER: Q. Can you tell me what the total loss was in that year. They seem to have drawn on reserve. A. The loss was $601,790.

Q. That is before drawing on reserve?
A. Yes.

Q. And the very next year they make a profit of $205,000? A. Yes.

Q. And the year before they had a profit of $134,000? A. Yes.

Q. So it rather looks that was a very abnormal year of some kind.

MR. KELLOCK: They lost in 1929.

MR. McRUER: But nothing like this. That was only one-fifth of what they lost in 1932.

BY MR. McRUER: Q. How much did you say they transferred in 1932 from the inventory reserve?
A. $250,000.

THE COMMISSIONER: It almost looks like a

.

Your Income Tax? A. They transferred that

reserve back to the credit of that year's operations.

Q. The reserve for Income tax? A. The

reserve they had set up back in 1928.

Q. I see.

BY THE COMMISSIONER: Q. That does not mean

that they paid $152,000 in Income tax? A. No,

by no means.

MR. MONROE: And it does not mean they got

it back from the Income tax department.

THE WITNESS: It has been observed to Income

tax in prior years on their books.

BY MR. MONROE: Q. Can you tell me what the

total loss was in that year. They seem to have

drawn on reserve. A. The loss was $601,700.

Q. That is before drawing on reserve?

A. Yes.

Q. And the very next year they make a profit of

, Yes.

Q. And the year before they had a profit of

$154,000? A. Yes.

Q. So it rather looks that was a very abnormal

year of some kind.

MR. DUNCAN: They lost in 1929.

MR. MONROE: But nothing like that. That was

only non-item of any kind in 1928.

BY MR. MONROE: Q. How much did you say they

borrowed in 1931 from the Bank?

A. $300,000.

MR. McRUER: Mr. Rene has just given me a statement that has come in from Mr. Whitehead. It is part of some information we asked for and which has not yet been filed, and I think the information ought all to be filed first thing in the morning. This particular statement is regarding the loss in inventory value for the year ended June 30th 1932. It is as follows:

"The Wabasso Cotton Company Limited,
Three Rivers, Que.

Statement regarding loss in inventory value for the year ended 30th June, 1932.

During the year ended 2nd July, 1932, there was a shrinkage in value or loss due to the drop in price of raw stock amounting to $234,480.52.

Inventories as at 26th June, 1931, were valued on the basis of 14-½ cent cotton, and at 2nd July, 1932 on the basis of 8½ cent cotton."

That does not quite tell the story.

THE COMMISSIONER: I have now the evidence before me of Mr. Whitehead, to which reference was made a few moments ago. It is at page 1051. That was when we were all considerably younger. It is as follows:

"Q. (by Mr. McRuer) Then we come to 1932. The balance sheet in 1932 shows an operating profit of $174,616.72; interest on investments seems to be down $10,000 for some reason, or $9,000. But this shows a net loss for the year of $283,705. Do you know anything about that loss, Mr. Whitehead? A. Yes, Mr. McRuer.

Mr. Monson: Mr. Rome has just given me a statement that has come in from Mr. Whitehead. It is part of some information we asked for and which has not yet been filled, and I think the Inspection ought all to be filed first thing in the morning. This particular statement is respecting the time in inventory value for the year ended June 30th 1932. It is as follows:

"The Webasco Cotton Company Limited,

Inventories, etc.

values for the year ended 30th June, 1932.

Inventories as at 30th June, 1931, were valued on the basis of 14-½ cent cotton, and was a shrinkage in value or loss due to the drop in price of raw stock amounting to $224,600.00. at 2nd July, 1932 on the basis of 8½ cent cotton."

That does not quite tell the story.

THE COMMISSIONER: I have now the evidence before me of Mr. Whitehead, to which reference was made a few moments ago. It is at page 1051. That was when we were all considerably younger. It is as follows:

"Q. (by Mr. McAuley) Then we come to 1932. The balance sheet in 1932 shows an operating profit of $174,616.72; interest on investments seems to be down $10,000 for same reason, or $9,000. But this shows a net loss for the year of $586,705. Do you know anything about that item, Mr. Whitehead? A. Yes, sir.

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Q. What brought that about? A. That loss was particularly due to manufacturing losses, but it was more due to the running down of the inventories due to the drop of the raw cotton market from about 25 cents a pound to six cents.

Q. Can you tell us how much of that loss was due to the loss in raw cotton? A. I cannot separate that for you, but I know that was the case at the time."

The evidence goes on:

"The Witness: The raw cotton and manufactured stock.

Mr. McRuer: It says here Inventory of raw cotton, partly manufactured, and manufactured stock, supplied, etc." . . . . Then it shows $1,300,000 loss in the inventory in 1932. Of course, they might carry a lower inventory."

That does not seem to be applicable. Then Mr. McRuer went on to quote from the report of that year:

"In submitting this report, your Directors regret that the operations of your Company have resulted in a loss for the year. This loss has been largely brought about by keen foreign competition and the downward trend of selling prices and by the continued business depression."

Then Mr. McRuer wanted to know what the foreign competition was. The tariff was discussed for a while, and then Mr. McRuer went back to the change in management:

Q. What brought that about? A. That loss was particularly due to manufacturing losses, but it was more due to the running down of the inventories due to the drop of the raw cotton market from about 55 cents a pound to six cents.

Q. Does you tell us how much of the t loss was due to the loss in raw cotton? A. I cannot segregate that for you, but I know that was the case at the time."

The evidence goes on:

"The Witness: The raw cotton and manufactured stock.

Mr. Wolfe: It says here inventory of raw cotton, partly manufactured, and manufactured stock, supplied, etc." . . . . . Then it shows $1,800,000 loss in the inventory in 1928. Of course, they might carry a lower inventory."

That does not seem to be applicable. Then Mr. Wolfe went on to quote from the report of that year:

"In addition this record, plus [illegible] have resulted in a loss for the year. This loss has been largely brought about by keen foreign competition and the downward trend of selling prices and by the continued business depression."

Then Mr. Wolfe wanted to know what the foreign competition was. The tariff was discussed for a while, and then Mr. Wolfe went back to the charge in management:

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"Q. (by Mr. McRuer) At that time, had your Company, or any of your subsidiary companies, been buying futures in cotton? A. Not to my knowledge.

Q. Well, was there anything in regard to the change in management, -- did that have anything to do with this drop, or loss? A. In buying cotton, Mr. McRuer, there is always speculation in the ordinary business, no matter how conservative the firm. The purchasing of cotton is allied very closely to the purchasing of wheat, or any other world commodity. We have got to buy futures in order to cover our commitments.

Q. Yes, but the question I had just asked you before was, did the fact that the management changed just at that time have anything to do with the fact that you had lost a large sum of money on raw cotton? A. I have no personal knowledge of the reasons why the management came, but I understand Mr. Aird had got an offer of a better position at Valleyfield with the Montreal Cotton Company.

Q. That may be, but I am not asking you at the moment about your personal knowledge. Is it not a fact that the change in management was brought about due to the loss in raw cotton? A. No, sir.

Q. Well, did it have something to do with it? A. No, sir.

Q. Nothing to do with it whatever? A. No, sir.

"Q. (by Mr. Meiner) At that time, had y
Company, or any of your subsidiary companies,
been buying futures in cotton? A. Not to
my knowledge.

Q. Well, was there anything in regard to
the change in management, -- did that have
anything to do with this drop, or loss?
A. In buying cotton, Mr. Meiner, there is
always a speculation in the buying business,
no matter how conservative the firm. The
purchasing of cotton is allied very closely
to the purchasing of wheat, or any other world
commodity. We have not to buy futures in
order to cover our commitments.

Q. Yes, but the question I had just some
you before was, did the fact that the manage-
ment changed just at that time have anything
to do with the fact that you had lost a large
sum of money on raw cotton? A. I have
no personal knowledge of the reasons why the
management came, but I understand Mr. Aird
had got an offer of a better position at
Wallaceville with the Montreal Cotton Company.
at the moment about your personal knowledge.
Is it not a fact that the change in management
was brought about due to the loss in raw
cotton? A. No, sir.

Q. Well, did it have something to do
with it? A. No, sir.

Q. Nothing to do with it whatever?
A. No, sir.

Q. Well, why did you not tell me that just a little earlier? A. Well, you are asking me a definite question which I am answering. The resignation was not actually handed into me although I was aware of the circumstances of the case.

Q. Did Mr. Aird just merely leave because he had got a better position? A. He left, I understand, because he and I did not agree very well.

Q. Well, might it be, that you did not agree with his policy on the purchase of raw cotton? A. No, with his policy on the operating of the plant."

MR. KILLOCK: There is no evidence about speculating.

THE COMMISSIONER: That is why I read it all. What he says is that there was a drop in raw cotton, and he then goes on and says that they buy the raw cotton like the miller buys wheat.

MR. McRUER: And he says that they lost by the drop from 25 to 6 cents a pound. In this statement that I have just read he says:

"During the year ended 2nd July, 1932, there was a shrinkage in value or loss due to the drop in price of raw stock amounting to $234,480.52.

Inventories as at 26th June, 1931, were valued on the basis of 14½ cent cotton, and at 2nd July, 1932, on the basis of 8½ cent cotton."

Q. Well, why did you not tell me that just a little earlier? A. Well, you are asking me a definite question which I am

[illegible]. The reduction was not explained

[illegible] to me although I was aware of the circumstances of the case.

Q. Did Mr. Aird just merely leave because he had got a better position? A. He left, I understand, because he and I did not agree very well.

Q. Well, might it be, that you did not agree with his policy on the purchase of raw cotton? A. No, with his policy on the operating of the plant."

MR. ALLCOCK: There is no evidence about apportionment.

THE COMMISSIONER: That is why I read it all. What he says is that there was a drop in raw cotton, and he then goes on and says that they buy the raw cotton like the miller buys wheat.

MR. MORRIS: And he says that they lost by the drop from 25 to 6 cents a pound. In this statement that I have just read he says:

"During the year ended 3rd July, 1932, there was a shrinkage in value or loss due to the drop in price of raw stock amounting to £284,480.52.

Inventories as at 26th June, 1931, were valued on the basis of 14½ cent cotton, and at 2nd July, 1932, on the basis of 8½ cent cotton."

So it is not in the shrinkage of inventory, there was fluctuation from 25 to 6 cents.

THE COMMISSIONER: Market fluctuation. Do you say, Mr. McRuer, that you have this and some other documents to put in in the morning?

MR. McRUER: Yes, I will have to put them in. One thing I do not quite understand is that according to this statement the loss in 1932 was $200,000, but according to your statement, Mr. Howson, it is $387,000.

THE WITNESS: The figures in this statement are a combination of the two companies, St. Maurice and Wabasso.

MR. McRuer: Oh yes. I think they combined the balance sheets earlier than that if my recollection is right. Now looking across the bottom of the last page, Exhibit 917, the net operating profit percentage of sales was in 1926, 8.8; 1927, 9.9; 1928, 7.4; 1929, 2.0; 1930, 7.2; 1931, 8.4. Then it goes down to a loss of 9.3 in 1932, and then a net operating profit, 10.1 per cent in 1933.

THE COMMISSIONER: Not a loss that year.

MR. McRUER: A profit in 1933. So there is a fluctuation from --

THE WITNESS: 19.4 per cent.

MR. McRUER: And a fluctuation between 1932 and 1931, the year before, of about 17.7 per cent. This is stated to be a consolidated balance sheet as of July 2, 1932, contained in Exhibit 74. The net loss for the year they stated in their balance sheet to be $283,705, and the balance at credit June 27, 1931, after absorbing Subsidiary Company

So it is not in the shrinkage of inventory, there was fluctuation from 85 to 6 cents.

You say, Mr. McNeer, that you have this and some other documents to put in in the morning?

MR. McNEER: Yes, I will have to put them in. One thing I do not quite understand in the reconciling to this statement the loss in 1932 was $800,000, but according to your statement, Mr. Lovson, it is $887,000.

THE WITNESS: The figures in this statement are a combination of the two companies, Mr. Hanrize and Dominion.

MR. McNEER: Oh yes. I think they combined the balance sheets earlier than that if my recollection is right. Now looking across the bottom of the last page, Exhibit 917, the net operating profit percentage of sales was in 1926, 8.6; 1927, 9.9; 1928, 7.4; 1929, 8.0; 1930, 7.8; 1931, 8.4. Then it goes down to a loss of 9.8 in 1932, and then a net operating profit, 10.1 per cent in 1933.

THE COMMISSIONER: Not a loss that year.

MR. McRUER: A profit in 1932. So there is a fluctuation from --

THE WITNESS: 19.4 per cent.

MR. McRUER: And a fluctuation between 1932 and 1931, the year before, of about 17.7 per cent, as of July 2, 1932, contained in Exhibit 74. The net loss for the year they stated in their balance

loss, $386,000. The loss for the subsidiary company was absorbed June 27, 1931.

BY MR. McRUER: Q. Now, Mr. Howson, we will just have a look at this, and see if we can reconcile their balance sheet with their answers to the questionnaire for this particular year.

THE COMMISSIONER: That may take a little time.

MR. McRUER: Yes, Mr. Howson might look at it after the adjournment, and we will file the additional material, my lord, first thing in the morning. I was wondering, my lord, if it would be inconvenient for us to sit at ten o'clock.

THE COMMISSIONER: I was thinking of that myself because we are not running ahead of schedule at all. How do you feel about it, Mr. Kellock? Shall we say ten or ten-thirty next week ?

MR. KELLOCK: I do not want to standin the way of progress at all, but it would not leave me very much time to get ready, but if it is the general desire I guess I can stand it.

THE COMMISSIONER: I realize, Mr. Kellock, that you have a pretty hard job dealing with all these companies, and I do not want to crowd you at all. I think we had better say ten-thirty.

MR. McRUER: I am getting just a little anxious about the progress we are making.

THE COMMISSIONER: I am too, but perhaps in view of the way things are the extra half hour might not save us any time in the long run.

MR. McRUER: Probably not. I propose, my lord, on Monday morning dealing with the Dominion

loss, $586,000. The loan for the subsidiary

will just have a look at this, and see if we can

the questionnaire for this particular year.

time.

MR. BENSON: Yes, Mr. Bowman might look at it

after the adjournment, and we will file the additional

material, my lord, first thing in the morning. I

was wondering, my lord, if it would be inconvenient

for us to sit at ten o'clock.

THE COMMISSIONER: I was thinking of that

myself because we are not running ahead of schedule

at all. How do you feel about it, Mr. Kellock?

Shall we say ten or ten-thirty next week?

MR. KELLOCK: I do not want to step in the

way of progress at all, but it would not leave

me very much time to get ready, but if it is the

general desire I guess I can stand it.

You have a pretty hard job dealing with all these

companies, and I do not want to crowd you at all.

I think we had better say ten-thirty.

MR. McPEAK: I am getting just a little

[illegible]

THE COMMISSIONER: I am too, but perhaps in view

of [illegible] we may [illegible]

save us any time in the long run.

lord, on Monday morning dealing with the Dominion

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Textile Company as soon as I am through with Wabasso Cotton, which will be in a very short time.

THE COMMISSIONER: Does counsel for Dominion Textile Company know that?

MR. McRUER: Yes.

MR. KELLOCK: With Your Lordship's permission I would like to have the order of cross examination changed a little bit. When dealing with the silk companies I did not cross examine on each case as soon as my friend got through, but in future I would rather deal with each company as it comes up rather than wait till later and deal with them all at once.

THE COMMISSIONER: I asked you yesterday which you preferred to do in the case of the silk companies, and you waited till the end.

MR. KELLOCK: My friend had already covered two companies then.

THE COMMISSIONER: Then when Mr. McRuer is through with Wabasso you would like to deal with it?

MR. KELLOCK: Yes, my lord.

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-- The Commission adjourned at 5 p.m., to resume on Monday morning at 10.30, November 16, 1936.

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-- The Commission adjourned at 5 p.m., to resume on Monday morning at 10.30, November 16, 1936.

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ONTO - CANADA

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

N I N E T Y - F I R S T D A Y

(November 16th Day)

Robert Brydie,
Official Reporter.

1919

HON. MR. JUSTICE T.A. TURGEON,

Official Reporter.

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

Appearances:

J.C. McRuer, K.C.) and E. Beauregard, K.C.)	Commission Counsel,
J.P. Lanctot, K.C.) and R.L. Kellock, K.C.)	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C.) Aime Geoffrion, K.C.) and C.T. Ballantyne,)	For Dominion Textile Company.
S.G. Dixon, K.C.	For Courtaulds, Limited.
L.A. Forsyth, K.C.	For Canadian Celanese Limited, and Canadian Silk Products Limited.

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Ottawa, Ontario,
November 16th, 1936

-- The Commission resumed at 10.30 A.M.

HOWSON, ERNEST J., Recalled,

EXAMINED BY MR. McRUER:

MR. McRUER: My lord, before we continue with Mr. Howson, there is one matter I wish to deal with. After we had been through with examination of the witnesses at Three Rivers, there was some material that Mr. Whitehead promised to send us in reference to the affairs of the Wabasso Cotton Company, and I think before we close Mr. Howson's evidence we should put this material on the record so that it is available.

THE COMMISSIONER: It comes to you from Mr. Whitehead.

MR. McRUER: From Mr. Macdougall of the Wabasso Cotton Company, a letter dated 17th of April, 1936.

EXHIBIT 921: Letter from the Wabasso Cotton Company Limited to Mr. Berry dated 17th of April, 1936.

MR. McRUER: It reads as follows:

"Referring to your letter of the 9th April addressed to Mr. Whitehead advising the return of our pay-roll for Jany. 1936. The auditors have now finished with this pay-roll, and as we have no further need of same we are sending it back so that itmay be returned to the Commission records.

We are also sending to you the following schedules asked for by the Royal Commission:-

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"(1) (a) List of Employees as at 20th July, 1935,

(b) " " " " " 28th March 1936,

(2) Extract from Minutes of Meetings of Directors of St. Maurice Valley Cotton Mills Limited held on 28th April 1912 and 21st May 1912.

(3) Analysis of Salaries for the years 1930 to 1935 inclusive.

(4) Copies of Wabasso Annual Reports for 1919 and 1930.

(5) Statement regarding Loss in Inventory Value for 1932.

(6) List of Employees suspended or dismissed since 1st April 1936.

The statements missing to complete the items requested are:

(7) Particulars of Executive Salaries since the incorporation of the Company.

(8) Particulars of Wabasso shares held by Messrs Jas. W. Pyke, C.R. Whitehead, and J.N. Greenshields.

Our old records are being searched for this information and same will be forwarded as soon as possible.

Will you kindly arrange to hand over all these schedules to Mr. Beauregard at once, as he has again written for the information supplied under heading (6) above.

An extra copy of this letter is attached to accompany the schedules."

MR. McRUER: I will put the schedules in.

THE COMMISSIONER: Are you making them all one Exhibit or separate?

MR. McRUER: I think probably better have separate Exhibits. The first is list of employees as at the 20th of July, 1935.

"(1) (a) List of Employees as at 30th July, 1939.

(b) " " " " 30th March 1940.

(2) Extract from Minutes of Meetings of Directors of Mt. Morris Valley Cotton Mills Limited held on 30th April 1912 and 21st May 1912.

(3) Analysis of balances for the years 1930 to 1950 inclusive.

(4) [illegible]
1950.

(5) Statement regarding Loss in Inventory Value for 1950.

(6) List of Employees suspended or dismissed since 1st April 1938.

The statements missing to complete the items

(7) Particulars of Securities since the incorporation of the Company.

(8) Particulars of Bonuses shares held by Messrs Des. W. Pike, O.R. Whitehead, and E.M. Greenshields.

Our old records are being searched for this information and same will be forwarded as soon as possible.

Will you kindly arrange to hand over all these schedules to Mr. Beauregard at once, as he has again written for the information supplied under heading (8) above.

An extra copy of this letter is attached to accompany the schedules."

MR. MORRIS: I will put the schedules in.

THE COMMISSIONER: Are you making them all one exhibit or separately

MR. MORRIS: I think already [illegible]

Exhibits. The first is list of employees as at the [illegible]
of July, 1939.

EXHIBIT 922: List of employees of the Wabasso Cotton Company as of 20th July, 1935.

MR. McRUER: Then the list of employees as at 28th March, 1936.

EXHIBIT 923: List of employees of Wabasso Cotton Company as of 28th March, 1936.

MR. McRUER: An extract from the Minutes of the first meeting, of the provisional directors of St. Maurice Valley Cotton Mills held on the 28th of April, 1912, and the 21st of May, 1912.

EXHIBIT 924: Extract from the Minutes of the Meeting of Directors of St. Maurice Valley Cotton Mills, Limited, held on the 28th of April, 1912, and 21st May, 1912.

MR. McRUER: Analysis of salaries for the years 1930 to 1935, inclusive.

EXHIBIT 925: Analysis of salaries of the Wabasso Cotton Company for the years 1930 to 1935 inclusive.

MR. McRUER: Copies of the annual reports went in with Mr. Howson's material, so that they will not be filed again.

Statement regarding loss in inventory value for the year 1932. This was read on Friday.

EXHIBIT 926: Statement regarding loss in inventory value, the Wabasso Cotton Company, for the year ended 30th June, 1932.

MR. McRUER: We do not seem to have the list of employees here that were dismissed. Mr. Beauregard, did you not have the list of employees that were dismissed? That has been already dealt with.

MR. MORGAN: Then the list of employees as at 30th April, 1929.

EXHIBIT 928: List of employees of the Wabasso Cotton Company as of 30th April, 1929.

MR. MORGAN: An extract from the Minutes of the first meeting, of the provisional directors of St. Maurice Valley Cotton Mills held on the 29th of April, 1912, and the 31st of May, 1912.

EXHIBIT 929: Extracts from the Minutes of the meeting of Directors of St. Maurice Valley Cotton Mills, Limited, held on the 29th of April, 1912, and 31st May, 1912.

MR. MORGAN: Analysis of salaries for the years 1920 to 1929, inclusive.

EXHIBIT 930: Analysis of salaries of the Wabasso Cotton Company for the years 1920 to 1929 inclusive.

MR. MORGAN: Copies of the annual reports went in with Mr. Howson's material, so that they will not be filed again.

Statement regarding loss in inventory value for the year 1929. This was read on Friday.

EXHIBIT 931: Statement regarding loss in inventory value, the Wabasso Cotton Company, for the year ended 30th June, 1929.

did you not have the list of employees that were

MR. BEAUREGARD: I think I have the list.

MR. McRUER: We will pass that on just now. The registered Shareholdings of the following people - Whitehead, Pyke, and Greenshields.

EXHIBIT 927: Registered shareholdings of Whitehead, Pyke and Greenshields, Wabasso Cotton Company.

MR. McRUER: Analysis of payroll for February, 1931.

THE COMMISSIONER: What date is that, analysis of salaries?

MR. McRUER: The salaries were executive salaries - this is wages.

EXHIBIT 928: Analysis of last two weeks of February, 1931 of pay roll, Wabasso Cotton Company.

MR. McRUER: This refers particularly to Exhibits 78 to 82. And analysis of pay roll for the last two weeks of February, 1932.

EXHIBIT 929: Analysis of pay roll for the last two weeks of February, 1932, Wabasso Cotton Company.

MR. McRUER: We did not keep Exhibit 117 for anything. I see this Statement we have here is marked Exhibit 117.

THE COMMISSIONER: That is statement of taxes.

MR. RENE: Statement of taxes paid by Wabasso in 1935.

MR. McRUER: If that has already been filed we do not need to file it again. This comes signed by Mr. Whitehead as statement of taxes paid in 1935 but it is marked Exhibit 117. It may be just an extra copy.

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CANADA

MR. BRADSHAW: I think I have the list.

MR. MONDEN: We will pass that on just now. The registered shareholdings of the following people - Whitehead, Tyke, and Greenshields.

[illegible]

[illegible] salaries?

MR. MONDEN: The salaries were executive salaries - [illegible].

EXHIBIT 228: Analysis of last two weeks of February, 1931 of pay roll, Mubaso Cotton Company.

[illegible] 73 to 82. And analysis of pay roll for the last two [illegible], 1930.

EXHIBIT 229: Analysis of pay roll for the last two weeks of February, 1931, Mubaso Cotton Company.

MR. MONDEN: We did not keep Exhibit 117 for marking. I see this Statement we have here is marked Exhibit 117.

THE COURT REPORTER: That is statement of taxes.

MR. REND: Statement of taxes paid by Mubaso in 1930.

MR. MONDEN: If that has already been filed we do not [illegible] it again. This comes signed by A.

[illegible] statement of taxes paid in 1930 but it is

Now, to continue with the affairs of Wabasso.

THE COMMISSIONER: Did you say something to me on Friday about going on this morning with Dominion Textiles?

MR. McRUER: Yes, as soon as I am finished with Wabasso.

Q. I asked you to reconcile for me, Mr. Howson, your statement for the year 1932 which shows a net loss for that year of $465,194.82 as compared with the loss mentioned in the Annual Statement of Two hundred and some odd thousand dollars - have you reconciled the two figures?

A. Yes, I have.

Q. Will you just give me the reconciliation - how the figure in the Annual Statement is arrived at?

A. The figure in our statement, of course, is a combined figure with the St. Maurice Valley Cotton Company and Wabasso Company and the figure of $465,194.82 is arrived at by not taking into account the profits for the year of the St. Maurice Company of $7,848.92 and the credit that the Wabasso Company put through from the Inventory Reserve of $250,000, and from the Investment Reserve of $28,934.79, and a further charge which was put through to the Reserve for Sinking Fund of $27,355, bond discount and redemption, $4,459.91. A total of $31,814.91. That balance ---

MR. KELLOCK: You have not included in that the $250,000? A. That is total of those two items. That balances with the Company's statement with the exception of $65.21, which was an error in the returns given to us.

Now, to continue with the affairs of Mahasco.

THE COMMISSIONER: Did you say something to me on Friday about going on this morning with Dominion Textile?

MR. MONDEK: Yes, as soon as I am finished with Mahasco, I asked you to reconcile for me, Mr. Howson, the statement for the year 1952 which shows a net loss for that year of $465,196.82 as compared with the loss mentioned in the Annual Statement of Two hundred and some odd thousand dollars - have you reconciled the two figures?

A. Yes, I have.

Q. Will you just give me the reconciliation - how the figure in the Annual Statement is arrived at?

A. The figure in our statement, of course, is a combined figure with the St. Maurice Valley Cotton Company and Mahasco Company and the figure of $465,196.82 is arrived at by not taking into account the profits for the year that the Mahasco Company put through from the Inventory [illegible] to the Reserve for Sinking Fund of $47,308, bond discount and redemption, $4,459.81. A total of $51,814.81.

Net balance ---

MR. KERLOCK: You have not included in that the $250,000?

A. That is total of those two items.

exception of $65.81, which was an error in the machine

MR. McRUER: Q. That is in the answers to the questionnaire? A. Yes.

Q. Now, could you give me a statement of the dividends that have been paid by the Company on the bonus stock that was issued at the inception of the Company?

A. Yes, I have a statement prepared along those lines. It is being typed by the stenographer at the moment. It will soon be available.

Q. We will pass on to something else and return to that. Now, can you tell me what the total amount set aside by this Company for depreciation has been?

THE COMMISSIONER: How far back is that going - beginning of the Company?

MR. McRUER: I want to get from the beginning of the company if Mr. Howson has that figure available?

A. The total amount was $4,239,258.34.

MR. KELLOCK: Is that both companies, - Wabasso and St. Maurice? A. Yes.

THE COMMISSIONER: That goes back to what year?

MR. McRUER: Q. 1911, is it? A. It is prior to that, I think.

Q. Did not have much to depreciate before 1911.

MR. KELLOCK: 1907.

THE WITNESS: I was just trying to find the year in which they first charged depreciation. This is the total from the inception of the Company.

Q. Can you give me the total amount written off for depreciation - taken to depreciation reserve rather

MR. MONROE: Q. That is in the answers to the questionnaire? A. Yes.

Q. Now, could you give me a statement of the dividends that have been paid by the Company on the bonus stock that was issued at the inception of the Company?

A. Yes, I have a statement prepared along those lines. It is being typed by the stenographer at the moment. It will soon be available.

Q. We will pass on to something else and return to that. Now, can you tell me what the total amount set aside by this Company for depreciation has been?

THE CHAIRMAN: How far back is that going - beginning of the Company?

MR. MONROE: I want to get from the beginning of the company if Mr. Howson has that figure available?

A. The total amount was $4,239,239.34.

MR. KERLOCK: Is that both companies, - Nanaimo et. Nanaimo? A. Yes.

THE CHAIRMAN: That goes back to what year?

MR. MONROE: Q. 1911, is it? A. It is prior to that, I think.

Q. Did not have much to depreciate before 1911.

MR. [illegible]: 1907.

THE CHAIRMAN: I was just trying to find the year in which they first charged depreciation. This is the total from the inception of the Company.

Q. Can you give me the total amount written off

taken from 1926 to 1936, 10-year period, or 1935. In your statement you have ten months of 1936? A. Yes.

Q. How could the depreciation, for instance, be brought up to date for that 10 months? A. Well, they closed off the operations. They changed their year end.

Q. They changed their accounting year? A. Yes, sir.

MR. McRUER: I think that is all I want to ask about Wabasso at the moment.

CROSS-EXAMINATION BY MR. KELLOCK:

Q. In your Summary dealing with the Wabasso Company, single sheet at the back, headed "Capitalization and operating results", you show the shares issued from time to time starting in 1907 with $487,000.

THE COMMISSIONER: Are you using this Exhibit 917?

MR. KELLOCK: I have just a partial copy.

MR. McRUER: It is a third from the back.

MR. KELLOCK: It is headed "Capitalization and operating results and you show that $487,000 of stock was issued in 1907, and you say "for property" in your statement, and then a little lower down you deduct the same figure in your issue of $487,000, you say "Excess of capital issued over original cost of assets exchanged therefor." Now, did you know that the Company received $75,000 in cash in connection with the issue of the $487,000? A. $75,000 in cash?

Q. Yes? A. No.

tween from 1928 to 1938, 10-year period, or 1938.

In your statement you have ten months of 1938? A. Yes.

Q. How could the depreciation, for instance, be brought up to date for that 10 months? A. Well, they closed off the operations. They changed their

Q. They changed their accounting year? A. Yes, sir.

MR. MORROW: I think that is all I want to ask about

[illegible]

[illegible]

single sheet at the back, headed "Capitalization and operating results", you show the shares issued from time to time starting in 1907 with $482,000.

THE COMMISSIONER: Are you using this Exhibit 91?

MR. [illegible]

MR. MORROW: It is a third from the back.

MR. KELLOCK: It is headed "Capitalization and operating results and you show that $482,000 of stock was issued in 1907, and you say "for property" in your [illegible], and then a little above you [illegible] the same figure in your issue of $482,000, you say "Excess of capital issued over original cost of assets exchanged therefor." Now, did you know that the Company received $75,000 in cash in connection with the issue of the $482,000? A. $72,000 in cash

Q. You see what happened, according to the evidence, was that the City of Three Rivers agreed to give a bonus of $75,000 to Mr. Whitehead, and that was one of the things that Mr. Whitehead assigned to the Gabasso Co. after its organization. Now, I cannot find that the Company got that $75,000 in the Company's capital? A. I did not treat that as a consideration. I am not speaking so much as consideration. It was as a matter of fact consideration.

MR. McRUER: You say it was.

MR. KELLOCK: The evidence said it was.

MR. McRUER: Mr. Whitehead said it was nothing more than the Company could get, and he regarded that as bonus stock in his own evidence.

THE COMMISSIONER: Was that of the same class of consideration as the furnishing of power, etc.?

MR. McRUER: Yes.

THE COMMISSIONER: What was the different items?

MR. McRUER: There was a contract.

MR. KELLOCK: It is right here.

MR. McRUER: There was a contract with the Company that Mr. Whitehead went down and got a contract to furnish power and arranged with the City of Three Rivers to give a bonus, and I put it to him that that was nothing but what he could have done on behalf of the Company, and as a matter of fact he was promoter of the Company at that time, and I feel quite sure in law could not have claimed consideration.

He was trustee for the Company - I put it to him that that was bonus stock and he said, "Yes." That was never put up by Council at that time.

MR. KELLOCK: Mr. Howson, for my purpose, my friend is stating it rather broadly.

MR. McRUER: Very accurately.

MR. KELLOCK: Q. My friend is taking it rather broadly. As a matter of fact, so far as documents are concerned, the $75,000 was part of the consideration for the 487,000 shares.

THE COMMISSIONER: Do you mean the right to obtain the $75,000 from the City?

MR. KELLOCK: Yes, that was one of the things assigned by Mr. Whitehead.

THE COMMISSIONER: The right to get it - you never got it.

MR. McRUER: The Company got the cash, my lord.

MR. KELLOCK: Whether that is so or not ---

THE COMMISSIONER: There was this bonus and what was the other two things?

MR. KELLOCK: They are set out in the evidence at pages 1169 and 1170. The first is the contract of land, which is in the witnesses statement as $13,000.

MR. McRUER: Yes, but they got money from the Company to pay for the land.

MR. KELLOCK: No, no.

THE COMMISSIONER: Enumerate them.

MR. KELLOCK: Mr. Howson, for my purpose, my friend is wasting it rather heavily.

MR. MORDEN: Very accurately.

MR. KELLOCK: My friend is taking it fairly broadly. As a matter of fact, so far as documents are concerned, the $75,000 was part of the consideration for the 487,000 shares.

THE COMMISSIONER: Do you mean the right to obtain the $75,000 from the city?

MR. KELLOCK: Yes, that was one of the things assigned by Mr. Whitehead.

THE COMMISSIONER: The right to get it - you never got it.

MR. MORDEN: The Company got the cash, my lord.

MR. KELLOCK: Whether that is so or not ---

THE COMMISSIONER: There was this bonus and what was the other two things?

MR. KELLOCK: They re set out in my evidence at pages 1189 and 1190. The first is the contract of land, which is in the witnesses statement as $13,000.

MR. MORDEN: Yes, but they got money from the Company in pay for any land.

MR. KELLOCK: No, no.

He was trustee for the Company - I put it to him that was bonus stock and he said, "Yes." That was never put up by Council at that time.

MR. KELLOCK: The second is the contract with the Shawinigan Water Company for the supply of Power for a eriod of 26 years, the right to renew for a further 25 years, and there is the benefits and moneys accruing to Whitehead and his associates under a by-law of the City of Three Rivers wherein they gave a bonus of $75,000, and commutation of taxes.

Q. Now, Mr. Howson, so far as documents show that $75,000 was part of the consideration for $487,000, but even though that were not so I cannot find in your Statement or Summary that you have shown the $75,000 as part of the Company's capital at any time? A. The $75,000 was not cash fund at that time, it was just an undertaking, as I understand it.

Q. It was paid, though? A. Undertaking of the City of Three Rivers to pay it.

THE COMMISSIONER: It was paid? A. I think it was credited to the Surplus Account. It certainly was not credited to the Consideration of the common stock.

MR. KELLOCK: Q. You see, when you turn over to this Statement of yours which you call "Summary of operations," which I think is the first statement that deals with this Company, the first year you show is 1926, and you have a figure there which you call, "Capital employed in Operation as per statements," and then you deduct "Inflation of original cost of assets," $487,000. Now, I say that you cannot find that you show that the Company had this $75,000 for Capital at any time?

MR. KNILOCK: The second is the contract with the Dewington Water Company for the supply of Power for a period of 80 years, the right to renew for a further 20 years, and Item 3 is the benefits and moneys accruing to Whitehead and his associates under a by-law of the City of Three Rivers whereby they gave a bonus of $75,000 and commutation of taxes.

Q. Now, Mr. Dowson, so far as documents are there $75,000 was a part of the consideration for $487,000, but even though that were not so I cannot find in your statement or Summary that you have shown the $75,000 as part of the Company's capital at any time? A. The $75,000 was not cash Fund at that time, it was just an undertaking, as I understand it.

Q. It was [illegible]

of the City of Three Rivers to pay it.

THE COMMISSIONER: It was paid? A. I think it was credited to the Surplus Account. It certainly was not credited to the Construction of the common stock.

MR. KNILOCK: Q. You see, when you turn over to the statement of yours which you call "Summary of Operations", which I think is the first statement that deals with this Company, the first year you show is 1926, and you have a figure there which you call, "Capital employed in Operation as per statements," and then you deduct "Inflation of original cost of assets," $487,000.

A. I don't think they have---

THE COMMISSIONER: For capital, you are saying?

MR. KILLOCK: Yes.

THE COMMISSIONER: Was it used as capital?

THE WITNESS: No, I am just trying to say that my understanding is that the money was paid subsequently by Three Rivers,. As a matter of fact part of it was transferred to St. Maurice Cotton Company, $55,000. was still outstanding at this time.

Q. At what time? A. After St.Maurice Valley Cotton Company was organized. I may be mistaken but my understanding is that the $75,000 was not paid by Three Rivers at the time the organization of this company took place, but was an undertaking by Three Rivers to pay the money, and that the money was paid and received by the Company and treated as a credit to their surplus, not consideration for capital stock issued.

MR. McRUER: For my friend's benefit may I put myself clear as to what I contend about that. In regard to earnings of the Company I suggest that they have no right to claim earnings on that $75,000, which was a bonus to them by the City of Three Rivers to come through, but to say, certainly for tariff purposes, we got a bonus of $75,000 from Three Rivers, we ought to be allowed to earn a return for ourselves on that bonus, in addition to the return we get on the bonus stock that was issued, that that is adding

ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
CANADA

THE CHAIRMAN: For counsel, you are saying?

MR. K ILGOUR: Yes.

MR. [illegible]: No, I am just trying to say that my understanding is that the money was paid subsequently by Three Rivers. As a matter of fact part of it was transferred to St. Maurice Cotton Company, $85,000. was still outstanding at this time.

Valley Cotton Company was organized. I may be mistaken but my understanding is that the $75,000 was not paid by Three Rivers at the time the organization of this company took place, but was an undertaking by Three Rivers to pay the money, and that the money was paid and received by the Company and treated as a credit to their surplus, not consideration for capital stock issued.

MR. MONK: For my friend's benefit may I put myself clear as to what I contend about that. In regard to earnings of the Company I suggest that they have no right to claim earnings on that $75,000, which was a bonus to them by the City of Three Rivers to come through, but to say, certainly for tariff purposes, we got a bonus of $75,000 from Three Rivers we ought to be allowed to earn a return for ourselves

insult to injury so far as I am concerned. I would say Mr. Howson was derelict in not wiping it out if he did not.

THE COMMISSIONER: He leaves it where he found it - in the Surplus Account.

THE WITNESS: Yes, sir.

MR. KELLOCK: Q. Did you know that the $75,000 had been received by the Company as a bonus? A. Yes, I knew there was an arrangement between Three Rivers and the Company.

Q. I asked you if you knew that the cash had been received? A. I have just forgotten the details but it seems to me there was some difficulty about one instalment subsequently.

Q. I am asking you if you knew that the cash had been received by the Company? A. Some of it was received by the Company, yes.

Q. How much? A. I think $50,000. I am not sure, I cannot say that without looking it up, but I think two instalments paid and some question about the other, and I do not recall whether it was finally paid or not.

Q. Page 1179 Mr. Whitehead is asked: "Q. You got your full $75,000? A. Yes." Now, the evidence shows $50,000 paid to the Wabasso Company and $25,000 paid St. Maurice, but you have included both these companies in one Consolidated Statement and so I do not think it makes any difference? A. No, it does not.

result to injury so far as I am concerned. I would say Mr. Howson was derelict in not wiping it out if he did not.

THE COMMISSIONER: He leave it where he found it in the original account.

MR. KELLOGG: Q. Did you know that the $75,000 had been received by the Company as a bonus? A. Yes, I knew there was an arrangement between Hayes and the Company.

Q. I asked you if you knew that the cash had been received? A. I have just forgotten the details but it seems to me there was some difficulty about the [illegible] immediately.

Q. I am asking you if you knew that the cash had been received by the Company? A. Some of it was received by the Company, yes.

Q. How much? A. I think $80,000. I am not sure, I cannot say that without looking it up, but I think two instalments paid and some question about the other, and I do not recall whether it was finally paid or not.

Q. Page 1179 Mr. Whitehead is asked: "Q. You got your full $75,000? A. Yes." Now, the evidence shows $80,000 paid to the Imperial Company and $80,000 paid it. Maurice, but you have included both these companies in one Consolidated Statement and so I do

Q. When the Company has got the $75,000 - you did not show that, so far as I can find, as part of the available capital that the Companies had? A. Of course, it automatically becomes part of the capital if it comes in, it becomes part of the assets.

THE COMMISSIONER: The heading you are under is Capital Stock?

THE WITNESS: You see, Mr. Kellock, the $75,000 when it comes in becomes part of the capital of the Company and is included in the capital just the same way your cumulative profits are.

Q. Looking at your statement "Summary of Operations" you deduct the $487,000? A. Yes.

THE COMMISSIONER: Where is that?

MR. KELLOCK: That is under the year 1926, my lord.

Q. This statement, "Summary of operations - Capital employed in operations as per statement, $4,912,000, deduct: Inflation of original cost of assets: Wabasso- $487,000." A. That is quite true, but I say the $75,000 when it is paid into the Company comes into the capital that we show as employed in earning the profits.

Q. Well, let me ask you this: The documents show that part of the consideration for the issue of the $487,000 of shares to Whitehead was the assignment of this right to get the bonus? A. Yes.

Q. You deduct the entire $487,000. Now, if that was part of the contract for the issue of those shares,

. When the Company has got the $75,000 - you did not earn that, do you? A. Part of it.

available capital that the Companies had? A. Of course, it automatically becomes part of the capital if it comes in, it becomes part of the assets.

THE COMMISSION: The bonding you are under is capital stock?

THE WITNESS: You see, Mr. Pollock, the $75,000 when it comes in becomes part of the capital of the Company and is included in the capital just the same way your [illegible].

Q. Looking at your statement "Summary of Operations" you deduct the $437,000? A. Yes.

THE COMMISSIONER: Where is that?

MR. POLLOCK: That is under the year 1920, my lord.

Q. This statement, "Summary of operations - Capital employed in operations as per statement, $4,918,000, deduct: Inflation of original cost of assets: Expenditure $437,000." A. That is quite true, but I say the $75,000 when it is paid into the Company comes into the capital that we show as employed in earning [illegible].

Q. Well, let me ask you this: The documents show that part of the consideration for the issue of the [illegible] of shares in Mexican Eagle [illegible] of this right to get the bonus? A. Yes.

Q. You deduct the entire $437,000. Now, if that

why do you do that? A. I don't understand it in that way. The undertaking to get the $75,000 may have been, the $75,000 itself was not.

THE COMMISSIONER: Mr. Whitehead could only get the $75,000 if he did certain things.

MR. KELLOCK: Gave certain undertakings and carried it out.

THE COMMISSIONER: No, had to go on and put up his works there. All he assigned to the Company was the right to take his place and carry out contract.

MR. KELLOCK: Yes, and then ---

THE COMMISSIONER: It was not a gift of $75,000 for so much stock.

MR. KELLOCK: Oh, my lord, what the witness has done he has said that there was no consideration whatever for this $487,000, and the undertaking at least resulted in turning in of $75,000 cash.

THE COMMISSIONER: That is rather a question of law, though, is not it?

MR. KELLOCK: Is not it a question of fact?

THE COMMISSIONER: No, the fact is he had a certain contract with the City whereby hehad to do certain things and they were in return to give him certain considerations, among them $75,000. He could not get the $75,000 unless he did those things. He got this Company to do it and assigned his contract to the Company. He did not get so much stock for the $75,000.

MR.KELLOCK: No, that is quite true, but---

why do you do that? A. I don't understand it in that way. The undertaking to get the $75,000 may have been, the $75,000 itself was not.

$75,000 if he did certain things.

MR. KELLOCK: Gave certain undertakings and carried it out.

THE COMMISSIONER: No, had to go on and put up his works there. All he assigned to the Company was the right to take his place and carry out contract.

MR. KELLOCK: Yes, and then ---

THE COMMISSIONER: It was not a gift of $75,000 for so much stock.

MR. KELLOCK: Oh, my lord, what the witness has done for this $407,000, and the undertaking at least resulting in turning in of $75,000 cash.

THE COMMISSIONER: That is rather a question of law, though, is not it?

MR. KELLOCK: Is not it a question of fact?

THE COMMISSIONER: No, the fact is he had a certain things and they were in return to give him certain moral devotions, among them $75,000. He could not get the $75,000 unless he did those things. He got this assigned to do it and assigned his contract to the Company. He did not get so much stock for the $75,000.

THE COMMISSIONER: As far as I understand what occurred those are the facts.

MR. KELLOCK: Yes.

THE COMMISSIONER: So I do not think you need labour them. The point is - has there been a proper setting up of those facts.

MR. KELLOCK: Yes, I am asking the witness why he wipes out the full $487,000 and gives it no value whatsoever.

THE WITNESS: Just on the same basis as we have treated all these statements, that we eliminated the consideration given for intangibles of stock issues. $ 75,000 comes into the Company when it is paid so far as capital invested is concerned. So in the latter ten years I do not think it makes a particle of difference. The only difference it will make is in the distribution of dividends.

Q. Well then, when you come to this sheet, this long wide sheet, which is headed, "Summary of Operations," the first thing you have there "Capital employed in operations as per statement," that should be Tangible Capital? A. Yes, $75,000 capital employed in operations, we deduct the inflation afterwards.

Q. I say instead of "Capital employed"there the correct way to describe that is "Tangible Capital"? A. No, the tangible capital is the actual capital.

Q. Oh yes. When you take out, deduct the $487,000 and $1,125,000, you have actual capital employed.

THE COMMISSIONER: As far as I understand what
counsel have stated.

MR. CULLEN: Yes.

THE COMMISSIONER: So I do not think you need
labour them. The point is - has there been a proper
setting up of those facts.

MR. MACLOCK: Yes, I am asking the witness why he
wipes out the full $487,000 and gives it no value what-
soever.

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Capital? A. Yes, $75,000 capital employed in
operations, we deduct the inflation afterwards.

Q. I say instead of "Capital employed" there the
correct way to describe what is "Tangible Capital"?
A. No, the tangible capital is the actual capital.

Q. Oh yes. When you take out, deduct the $487,000

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You mean by that actual tangible capital employed? A. Yes, and your $75,000 is included in there because it has been paid.

THE COMMISSIONER: When it comes in? A. Yes.

(Page 12537 follows)

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You mean by that actual tangible profit anticipated? A. Yes, and your $75,000 is included in there because it has been paid.

THE COMMISSIONER: When it comes in? A. Yes.

(Page 12557 follows)

BY MR. KELLOCK: Q. Well, is there anything special about this inquiry over the ordinary case of accounting why you should deduct and ignore intangible capital no matter what is the set-up of your statements, for the purpose of this inquiry ? A. Yes, I am trying to show the profits on the actual investments in the company's trading operations. The whole picture is here, the tangibles and the intangibles.

Q. Yes, but the very first thing you do is get rid of the intangibles ? A. Yes. Of course, we show the total capital.

Q. I am asking you why, for the purpose of this inquiry, you should be interested in deducting and getting rid of intangible capital which you agreed with me the other day has a very real value ? A. It may have in certain circumstances.

Q. What is the reason? A. I am telling you, to get at the returns on the actual capital invested in the company of a tangible nature.

Q. I see? A. Cash or kind.

BY THE COMMISSIONER: Q. Cash or what ? A. Cash or kind.

BY MR. KELLOCK: Q. So you assign no value to anything except cash or something one can put his hand on; you assign no value to anything except cash or something one can put his hand on ? A. I am just setting up the earnings on the difference between the total capital investment and the elimination of the intangibles.

Q. Setting up the earnings ? A. It is not a

about this inquiry over the ordinary ones of accounti
why you should deduct and ignore intangible capital no
matter what is the set-up of your statements, for the
purpose of this inquiry ? A. Yes, I am trying
to show the profits on the actual investments in the
company's trading operations. The whole picture is
here, the tangibles and the intangibles.

Q. Yes, but the very first thing you do is get
rid of the intangibles ? A. Yes. Of course,
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Q. I am asking you why, for the purpose of this
inquiry, you should be interested in deducting and
getting rid of intangible capital which you agreed wit
me the other day has a very real value ? A. It may
have in certain circumstances.

Q. What is the reason? A. I am telling
you, to get at the returns on the actual capital in-
vested in the company of a tangible nature.

Q. I see. A. Clear or kind.

BY THE CHAIRMAN: Q. Clear or what ? A. Clear
as kind.

BY MR. MACKEEN: Q. So you assign no value to
anything except cash or something one can put his hand
on; you assign no value to anything except cash or
something one can put his hand on ? A. I am just
setting up the warnings on the difference between the
total capital investment and the elimination of the
intangibles.

question of setting a value on anything.

Q. You are setting up the earnings on tangible capital ? A. Yes.

Q. All right; now, Mr. Howson, in 1907, when the issue of --

THE COMMISSIONER: Just a minute, Mr. Kellock; I think this should be made clear. The company, the Wabasso company did not get this $75,000., for instance, simply in return for the stock they gave to Mr. Whitehead, or for part of that stock, they got it only after they had carried out his contract for him.

MR. KELLOCK: Yes, my lord.

THE COMMISSIONER: As long as you understand it.

BY MR. KELLOCK: Q. Mr. Howson, at the same time that this $487,000. of stock was issued there was a bond issue of the Wabasso Cotton Company of $1,000,000. ? A. Yes, somewhere around about the same time.

THE COMMISSIONER: What did you say, a bond issue ?

MR. KELLOCK: A bond issue, my lord, of $1,000,000. ? A. Excuse me, according to their record it was not -- the bond issue may have been authorized at the same time, but the bonds were not issued at the same time.

Q. When were they issued ? A. The common stock was issued on July 9th, 1907. The first issue of bonds was in 1908; I don't know what date. It does not give the exact date.

Q. All right? A. Then, it carries on, it runs on to 1908, 1909, and 1910. The whole

question of settling a value on property.

Q. You are setting up the earnings on tangible
capital ? A. Yes.

Q. All right; now, Mr. Howson, in 1907, when the
issue of —

think this should be made clear. The company, the
Wabasso company did not get this $75,000., for instance
simply in return for the stock they gave to Mr. Whitehead, or for part of that stock, they got it only after
they had carried out his contract for him.

MR. KMILOCK: Yes, my lord.

THE COMMISSIONER: As long as you understand it.

BY MR. KMILOCK: Q. Mr. Howson, at the same time
that this $MV[illegible], of which you have known there was a
bond issue of the Wabasso Cotton Company of $1,000,000.

A. Yes, somewhere around about the same time.

THE COMMISSIONER: What did you say, a bond
issue ?

MR. KMILOCK: A bond issue, my lord, of
$1,000,000. ? A. Excuse me, according to
their record it was not -- the bond issue may have
been authorized at the same time,but the bonds were
not issued at the same time.

Q. When were they issued ? A. The common
stock was issued on July 8th, 1907. The first issue
of bonds was in 1906; I don't know what date. It does
not give the exact date.

Q. All right? A. Then, it carries

million was not issued at once.

Q. Ultimately within a few years the whole million was issued ? A. Yes.

Q. And each purchaser of $1,000. in bonds got $200. worth of this stock, and that stock was supplied out of the $487,000. that was issued to Mr. Whitehead and his associates ? A. I think the evidence shows --

Q. I am correctly stating the evidence, am I not ? A. Well, I cannot give you that exactly.

Q. Well, it is right here, Mr. Howson,

MR. McRUER: These bonds have all been redeemed in full.

BY MR. KELLOCK: Q. I am reading to you from page 1183 -- A. I am not disputing what you say as being correct. I know it is in the evidence.

Q. All right, am I corredtly stating the evidence? A. I cannot tell you without having anything right in front of me .

Q. Well, I was going to read it to you; either take my statement or let us have the evidence. Page 1183, line sixteen :

"So far as the stock was concerned that went to you personally, did it ? A. It came to me first of all, naturally, as it says there, but when we sold the bonds -- we sold a million dollars of bonds and we gave a bonus.

"BY THE COMMISSIONER: Q. When was that ? A. That was following right on the steps of the other. We followed right along. As soon as we formed the company and issued the bonds we imme-

Ultimately within a few years the whole million

Q. And each purchaser of $1,000. in bonds got

worth of this stock, and that stock was supplied

out of the $427,000. that was issued to Mr. Whitehead

his associates ? A. I think the evidence

says --

Q. I am correctly stating the evidence, am I

A. Well, it is right here, Mr. Howson,

MR. MORDEN: I_hope bonds have all been redeemed

by Feb.

BY MR. KELLOCK: Q. I am reading to you from

page 1189 -- A. I am not disputing what you say as

being correct. I know it is in the evidence.

Q. All right, so I correctly stating the evidence?

A. I cannot tell you without having anything right in

front of me .

Q. Well, I was going to read it to you; either

take my statement or let us have the evidence. Page

1189, line sixteen :

"So far as the stock was concerned that went to

you personally, did it ? A. It came to me

first of all, naturally, as it says there, but

when we sold the bonds -- we sold a million dol-

lars of bonds and we gave a bonus.

"BY THE COMMISSIONER: Q. When was that ?

A. It was following right on the steps of the

diately started out to sell them. We sold a million of bonds and we gave a bonus.

"BY MR.McRUER: Q. How much bonus did you give on the million dollars worth of bonds ? A. The regular bonus was 20%.

"Q. Pardon ? A. 20%.

"BY THE COMMISSIONER: Q. 20%? A. Yes.

"Q. To the purchaser ? A. To every purchaser, got 20%."

Now, ehtn the purchasers of this million dollars worth of bonds paid their money at the same time they got $200,000. worth of these shares supplied by Mr. Whitehead out of his $487,000, according to that; is that so ? A. Yes.

Q. Would it not be proper to apportion the million dollars as between the bonds and the stock ? A. I don't think so in this case.

Q. Why not in this case ? A. Rhe bonds are set up here at the full par value.

MR.McRUER: The bonds were redeemed at $110.

MR. KELLOCK: Please don't interject; that is years later.

MR. McRUER: I know, but that is showing the operation of the company. They redeemed their bonds at 10 points premium.

MR. KELLOCK: They redeemed them in 1935 at 10 points premium because the bonds said they were to be redeemed at 10 points premium when they were issued. Is that right ?

directly started out to sell them. We paid a million of bonds and we gave a bonus.

"BY Mr.Mellon: Q. How much bonus did you pay on the million dollars worth of bonds ? A. The regular issue was 20%.

"Q. Pardon ? A. 20%.

"Q. To the purchaser ? A. To any purchaser, got 20%."

Now, what the purchasers of this million dollars worth of bonds paid their money at the same time they got $800,000. worth of these shares supplied by Mr. Whitehead out of his $400,000. according to that; is that so ? A. Yes.

Q. Would it not be proper to apportion the million dollars as between the bonds and the stock ?

A. I don't think so in this case.

Q. Why not in this case ? A. The bonds are set up here at the full par value.

MR.MORROW: The bonds were redeemed at $110. Years later.

MR. MELLON: I know, but they are showing the value of the security. They redeemed those bonds at 10 points premium.

MR. KENDRICK: They redeemed them in 1925 at 10 points premium because the bonds said they were to be redeemed at 10 points premium when they were issued. Is that right ?

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MR.McRUER: That is right.

BY MR. KELLOCK: Q. I am asking you about something that deals with 1907 and 1908 when these bonds were issued. I am asking you if it is not fair to consider that when the purchasers paid their million dollars they paid it not only for the bonds but for the stock ? A. Well, we are taking in the million dollars they paid as capital.

Q. You are taking it in that they paid it but you are not treating it as part of the share capital in any way whatsoever. A. No, they subscribed for bonds and paid a million dollars for bonds.

Q. You think they would have paid a million dollars for the bonds whether they got the stock or not ? A. That I don't know.

Q. If that is so why don't you apportion the purchase price between bonds and stock? A. Because I am putting it in as the amount paid for the bonds.

BY MR.McRUER: Q. That is what the books show ? A. Yes.

BY MR. KELLOCK: Q. The reason is because you are doing it ? A. The books do not show that the bondholders got any common shares.

Q. But when you know as a matter of fact that the bondholders did get common shares would it not be a fair thing -- I am asking you, would it not be a fair thing to apportion the million dollars as between the bonds and shares ? A. No, I don't think so.

Q You don't think so, all right; now, coming down to the issue of the St.Maurice shares which you

BY MR. KNIGHT: Q. I am asking you about the bonds that were issued with 1807 and 1808 when those bonds were issued. I am asking you if it is not fair to consider that when the purchasers paid their million dollars they paid it not only for the bonds but for the stock? A. Well, we are taking in the million dollars they paid as counted.

Q. You are looking at it in that they paid it but you are not treating it as part of the extra capital in any way whatsoever. A. No, they subscribed for bonds and [illegible].

Q. You think they would have paid a million dollars for the bonds whether they got the stock or not? A. [illegible].

Q. If that is so why don't you apportion the purchase price between bonds and stock? A. Because I am putting it in as the amount paid for the bonds.

BY MR. MONTGOMERY: Q. That is what the books show? A. Yes.

BY MR. KNIGHT: Q. The reason is because you are doing it? A. The books do not show that the bond[illegible]

Q. But when you know as a matter of fact that the bondholders did get common shares would it not be a fair thing -- I am asking you, would it not be a fair thing to apportion the million dollars as between the bonds and shares? [illegible]

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show next as being issued in 1912, $1,250,000. Have you read the evidence as to what took place ? A. Yes.

Q. Well, you will recall that the capital of the Wabasso Company was increased to $1,750,000., and as they had already issued $500,000. in 1907 as your statement shows they then had available $1,250,000. ? A. Yes.

Q. And that the St.Maurice was organized in order to obtain the necessary capital or necessary additional capital to build a second mill because if they had not organized a separate company the bonds which they would have out out would have been second mortgage bonds, so they organized the St.Maurice Company with a capital of $1,250,000. and the Wabasso gave the St. Maurice Company $1,250,000. in shares of the Wabasso Company for $1,250,000. in shares of the St. Maurice; is that right ? A. Correct.

Q. Then, the St. Maurice Company issued $1,500,000. in bonds ? A. Yes.

Q. Then, those bonds were sold, and I want to read to you just a sentence or two from the evidence at page 903 where at line sixteen my friend is examining Mr. Whitehead. It is 1193, I am sorry.

"Q. Just a moment, with the bonds on the St. Maurice Company you have a 50% bonus of Wabasso stock ? A. Yes.

"Q. So that the purchasers of St.Maurice bonds got -- A. 50% --

"Q. For every thousand dollars they got $500 par value of Wabasso stock ? A. Yes."

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show mark as being issued in 1913, $1,250,000. Have you read the evidence as to what took place ? A. Yes.

Q. Well, you will recall that the capital of the Wabasso Company was increased to $1,750,000., and as they had already issued $1,000,000. in 1907 by [illegible] mark shows they then had available $1,250,000. ?

A. Yes.

Q. And that the St.Maurice was organized in order to obtain the necessary capital or necessary additional capital to build a second mill because if they had not organized a separate company they [illegible] would have put out out would have been secured [illegible] bonds, so they organized the St.Maurice Company with a capital of $1,250,000. and the Wabasso gave the St. Maurice Company $1,250,000. in shares of the Wabasso Company for $1,250,000. in shares of the St. Maurice; is that right ? A. Correct.

Q. Then, the St. Maurice Company issued $1,500,000. in bonds ? A. Yes.

Q. Then, those bonds were sold, and I want to read to you just a sentence or two from the evidence at page 903 where at line sixteen my friend is examining Mr. Wh[illegible]ebeck. It is [illegible], I am sorry.

"Q. Just a moment, with the bonds on the St. Maurice Company you have a 50% bonus of Wabasso [illegible]

A. Yes.

"Q. So that the purchasers of St.Maurice bonds got -- A. 50% --

"Q. The whole thousand dollars only got [illegible]

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Now, you have from your statement eliminated the entire $1,250,000. issued of Wabasso shares as having been issued for no consideration whatsoever , and I am asking you under those circumstances --A. With the exception of $125,000.

Q. With the exception of $125,000., yes, you are quite right. I am asking you undey those circumstances if for every thousand dollars that the purchasers of these bonds and stock put up they got $1,000 in bonds and $500. in stock, if it would not be proper and fair to apportion part of that purchase price to the shares ? A. No, I don't think so.

THE COMMISSIONER: How much would you apportion?

MR. KELLOCK: You would have --

THE COMMISSIONER: Unless you can tell us that it ispretty hard.

MR. KELLOCK: My lord, for every thousand dollars paid the purchaser got $1,500. par value, one thousand in bonds and five hundred in stock. One-third, therefore would be the value of the stock.

THE WITNESS: No, no, that would not have anything to do with it at all.

Q. How would you do it ? A. The common stock gave the bondholders an interest in the earnings. It had not value at that time at all.

MR.McRUER: The company got nothing for it.

THE WITNESS: I am telling you that is the reason why I say I am treating it this way. At the time they got the bonus stock the stock had no value whatever.

BY MR. KELLOCK: Q. It isn't a question of the

Now, you have given your statement eliminated the question $1,250,000. issued of Kansas should as having been issued for no consideration whatsoever, and I am asking you under those circumstances --A. With the exception of $385,000.

Q. With the exception of $135,000., Yes, you are quite right. I am asking you under those circumstances if for every thousand dollars that the purchasers of these bonds and stock put up they got $1,000 in bonds and $500. in stock, if it would not be proper and fair to apportion part of that purchase price to the shares

MR. KELLOGG: You would have --

THE COMMISSIONER: Unless you can tell us that it is perfectly heard.

MR. KELLOGG: My lord, for every thousand dollars paid the purchaser got $1,500. par value, one thousand in bonds and five hundred in stock. One-third, therefore would be the value of the stock.

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MR. KELLOGG: The company got nothing for it.

THE WITNESS: I am telling you that is the reason why I say I am treating it this way. At the time they got the bonds stock had no value whatever.

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value of it; it is a question of what was paid for it ? A. They didn't pay anything.

Q. The evidence shows $1,000. ? A. The evidence shows $1,000. was paid for the bonds and they got the stock as a bonus.

THE COMMISSIONER: That was made clear by Mr. Whitehead. It is true he said he had to give the stock as a bonus to get them to buy the bonds, but the money they gave though was for the bonds, and the stock was an inducement. I ask you again, you say there should be a value put there; what value ?

MR. KELLOCK: I would say, my lord, $1,000. was paid for securities of a par value of $1,500., $500. of which was stock.

THE COMMISSIONER: But the par value of the bonds is one thing and the par value of stock is another thing.

MR.McRUER: The capital structure of the company shows nothing was given for the stock.

THE COMMISSIONER: The bonds constitute a debt. The stock may be worth something and it may be worth nothing.

MR. KELLOCK: Surely we are not justified, my lord, in just cavalierly wiping out every dollar of consideration for the stock.

THE COMMISSIONER: What would you do ? What value would you put on that ? A man buys these bonds which have a certain value and bear a certain rate of interest. He pays the amount and you give him ten or fifteen or twenty shares to induce him to buy the bonds.

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value of it; it is a question of what was paid for

it? ... Any other question?

Q. The evidence shows $1,000. ? A. The evidence shows $1,000. was paid for the bonds and they got the stock as a bonus.

Whitehead. It is true he said he had to give the stock as a bonus to get them to buy the bonds, but the money they gave though was for the bonds, and the stock was an inducement. I ask you again, you say there should be a value put there; what value ?

MR. HOLBOURN: I would say, my lord, $1,000. was paid for the bonds and par value of stock,

of which we claim.

THE COMMISSIONER: But the par value of the bonds is one thing and the par value of stock is another thing.

MR. HOLBOURN: The capital structure of the company shows nothing was given for the stock.

THE COMMISSIONER: The bonds constitute a debt.

lord, in just cavalierly wiping out every dollar of moral deration for the stock.

THE COMMISSIONER: What would you do ? What value would you put on that ? A man buys these bonds which have a certain value and bear a certain rate of interest. He pays the amount and you give him no

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What value would you put on the stock, I am asking you?

MR. KELLOCK: I would put one-third.

THE COMMISSIONER: Back in those days ?

MR. KELLOCK: Yes.

THE COMMISSIONER: You are taking now, you know, what the stock has earned. I say if you were back in those days how could you put one-third on the stock alone?

MR KELLOCK: What your lordship says to me very fairly is that the bonds were a secured debt and the stock was a secondary consideration. I may be high --

THE COMMISSIONER: As Mr. Whitehead said the stock was an inducement to the public to buy the bonds; that is all.

MR. KELLOCK: Surely it had some value ?

THE COMMISSIONER: It gave them a chance in the earnings of the company if the company paid dividends. If the company did not the stock was no good. I would be at a great loss to say what value should have been put in that year, at that time, on that stock, and I don't see how the witness can do it.

MR. KELLOCK: I would be content with this, that surely some value must be put on it and not every dollar wiped out.

THE COMMISSIONER: Because, as the witness said, if it had not been for it they would not have sold the bonds, at least, would have had difficulty in selling the bonds.

MR. KELLOCK: Therefore, we must put some value on it.

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CANADA

what value would you put on the stock, I am asking you.

MR. [illegible]: I would put one-third.

THE COMMISSIONER: Back in those days ?

MR. KELLOCK: Yes.

[illegible]: You are talking now, just [illegible]

what the stock has seemed. I say if you were back in those days how could you put one-third on the stock alone?

MR. KELLOCK: What your lordship says to me would [illegible] stock was a secondary consideration. I may be high - [illegible] was an inducement to the public to buy the bonds; that is all.

MR. KELLOCK: Surely it had some value ?

THE COMMISSIONER: It gave them a chance in the [illegible] if the company did not the stock was no good. I would be at a great loss to say what value should have been put in that year, at that time, on that stock, and I don't see how the witness can do it.

MR. KELLOCK: I would be content with this, that [illegible]

THE COMMISSIONER: Anyway, as the letters said, if it had not been for it they would not have sold the bonds, at least, would have had difficulty in selling the bonds.

MR. KELLOCK: Therefore, we must put some value

THE COMMISSIONER: I don't know how you can calculate it to-day.

MR. KELLOCK: The witness has gone to the other extreme and wiped it out.

MR.McRUER: There isn't a cent shown on the company's books as having been received for this stock. They did receive money for the bonds and they redeemed the bonds at $105.

THE COMMISSIONER: I thought you said at $110.

MR.McRUER: St.Maurice is $105. and Wabasso is $110. That is a cash transaction that took place with this company and the rest was built on bonus and hope, and the hope was fulfilled.

MR. KELLOCK: Now, I am satisfied with this, my lord, that there must be some value put behind them, and not wipe them out entirely.

MR. McRUER: Not for the purpose of this inquiry.

MR. KELLOCK: I don't understand what the difference is between this inquiry and any other matter of accounting.

MR.McRUER: Well, you will find out before we are through. It isn't a question of accounting at all.

BY MR. KELLOCK: Q. Now, Mr. Howson, on this short statement you have that is headed "Capitalization and Operating results", a little below the centre of the page you have "Combined net revenue for ten years and ten months to May 2nd, 1936". You have said there was a change; now, --

THE COMMISSIONER: Pardon me a moment, what have we got ?

THE COMMISSIONER: I don't know how you can calculate it to-day.

MR. KERLOCK: The witness has gone to the other extreme and wiped it out.

MR.MORDEN: There isn't a cent shown on the company's books as having been received for this stock. They did receive money for the bonds and they redeemed the bonds at $105.

THE COMMISSIONER: I thought you said at $110.

MR.MORDEN: $1.Municipe is $105. and Wabasso is $110. [illegible] this company and the rest was built on bonus and hope, and the hope was fulfilled.

MR. KERLOCK: Now, I am satisfied with this, my lord, [illegible] and not wipe them out entirely.

MR. MORDEN: Not for the purpose of this inquiry.

MR. KERLOCK: I don't understand what the difference is between this inquiry and any other matter of account-ing.

MR.MORDEN: Well, you will find out before we are through. It isn't a question of accounting at all.

BY MR. KERLOCK: Q. Now, Mr. Howson, on this short statement you have that is headed "Capital Assets and Operating results", a little below the centre of the page you have "Combined net revenue for ten years and ten months to May 2nd, 1930". You have said there was a change; now, --

MR. KELLOCK: Your lordship sees on the small page, a little below the centre, "Combined Net Revenue for 10 years and 10 months to May 2nd, 1936"; that is the end of the Compnny's fiscal year, is it, May 2nd? A. Yes, it was changed to that, I believe, this last year.

Q. Do you know what it was before that ? A. Prior to that it was June 30th.

Q. There is a figure there of $3,973,000. which you call Combined net revenue and right below that you see you have not even taken out bank interest or interest on bonds. That is not really a net revenue figure at all under these circumstances, is it ? A. It all depends on what you mean by combined net revenue.

Q. What do you mean by net revenue ? A. It is quite clear what that means. It is the net revenue subject to those deductions. If those deductions were not there there might be some reason for criticizing the terminology.

Q. As I understand you if we keep on reading down we see it really isn't a net figure at all because there are these charges to come out ?

THE COMMISSIONER: It is very far from it.

THE WITNESS: It is net revenue from trading.

BY MR. KELLOCK: Q. It is not a revenue figure at all ? A. It is the net revenue from the trading profits.

Q. What I am afraid of is if your description is read into the record as "combined net revenue" and we

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MR. KNILOCK: Your lordship sees on the small page, a little below the centre, "Combined Net Revenue for 10 years and 10 months to May 2nd, 1936"; that is the end of the Company's fiscal year, is it, May 2nd?

A. Yes, it was changed to that, I believe, this last year.

Q. Do you know what it was before that? A. Prior to that it was June 30th.

Q. There is a figure there of $3,973,000, which you call Combined net revenue and right below that you see you have not even taken out bank interest or interest on bonds. That is not really a net revenue figure at all under these circumstances, is it?

A. It all depends on what you mean by combined net revenue.

Q. What do you mean by net revenue? A. It is quite clear what that means. It is the net revenue not there there might be some reason for criticizing the terminology.

Q. As I understand you if we keep on reading down we see it really isn't a net figure at all because there are those charges to come out?

THE COMMISSIONER: It is very far from it.

THE WITNESS: It is not revenue from trading.

BY MR. KNILOCK: Q. It is not a revenue figure at all? A. It is the net revenue from the trading profits.

Q. What I am afraid of is if your description is

haven't got the rest of the statement --

A. The statement has already been filed so there is no danger of that.

MR. McRUER: Are you afraid we won't read the rest of it?

BY MR. KELLOCK: Q. You have there for ten years and ten months, you have that broken period in there. You remember when you were dealing with Associated Textiles you did not include at all the broken period in connection with that company from the first of February till the 31st of July. Why do you include the broken period when you are dealing with this company? A. We included the broken period in the total revenue in the Associated Textiles. We did not include the broken period in the comparative statement. That was the only thing, because it was a broken period and the other years were full years of operations, and it was the original year when the operations were not in actual operation, so to speak.

Q. Oh yes, it was in actual operation ? A. They did $167,000. worth of business in that short period, and in the following year they did over a million dollars worth of business. That was the organization period. It is not a comparative period with the operating periods which follow.

Q. Don't you think $167,000. worth of business is worth considering when you are making up a statement ? They had a loss in that period of $79,000.? A. $40,000.

Q. A trading loss of $40,000. ? A. The other was not a loss at all, it was an expenditure.

haven't got the rest of the statement --

A. The statement has already been filed so there is no danger of that.

MR. MONTAGUE: Are you afraid we won't read the rest of it?

MR. KELLOCK: A. You have there for ten years and ten months, you have that broken period in there. You remember when you were dealing with Associated Textiles you did not include at all the broken period in connection with that company from the first of February till the 31st of July. Why do you include the broken period when you are dealing with this company?

A. We included the broken period in the total revenue in the Associated Textiles. We did not include the broken period in the comparative statement. That was the only thing, because it was a broken period and the other years were full years of operations, and it was the original year when the operations were not in actual operation, so to speak.

Q. Oh yes, it was in actual operation?

A. They did $107,000. worth of business in that short period, and in the following year they did over a million dollars worth of business. That was the organization period. It is not a comparative period with the operating periods which follow.

Q. Don't you think $167,000. worth of business is worth considering when you are making up a statement? They had a loss in that period of $79,000.?

A. $40,000.

Q. It reduced the capital in that year --

MR. McRUER: It didn't because there was $60,000. bonus which they got from the citizens to cover it.

MR. KELLOCK: If we are going to use bonus as capital surely we must be consistent.

THE WITNESS: There was no reason at all for leaving out that particular period, no deliberate reason for leaving it out, if that is what is worrying you.

Q. Now, at the bottom of the page there you have two items which my friend called attention to; it is under the heading of Unused Reserves and the first is for Inventories and cash discount $365,500. The other is for investments $353,839.74. Cash discounts are a very real liability, are they not ? A. Not necessarily.

Q. Not necessarily ? A. No.

Q. You mean they will not be experienced ? A. They may not be and furthermore it is a financial transaction in the following year.

Q. Why do you say it is in the following year ? A. If the customer pays his money and takes his cash discount, I presume then that is a charge against the following years, a deduction from the outstanding assets.

Q. If you have taken your inventory in in the year we are dealing with on a certain basis -- A. It has nothing to do with the inventory. Cash discounts have nothing to do with the inventory.

Q. It has to do with receivables ? A. Yes.

Q. If the receivables are taken in on a certain

Q. It reduced the capital in that year --

MR. MORDEN: It didn't because there was $80,000.

bonus which they got from the citizens to cover it.

MR. [illegible]: If we are going to use bonus as

capital surely we must be consistent.

THE WITNESS: There was no reason at all for leaving out that particular period, no deliberate reason for leaving it out, if that is what is worrying you.

Q. Now, at the bottom of the page there you have two items which my friend called attention to; it is under the heading of Unused Reserves and the first is for Inventories and cash discount $280,500. The other is for [illegible]. Both obviously are a very real liability, are they not ? A. Not necessarily.

Q. Not necessarily ? A. No.

Q. You mean they will not be expropriated ? A. They may not be and furthermore it is a financial transaction in the following year.

Q. Why do you say it is in the following year ?

A. If the customer pays his money and takes his cash discount, I presume then that is a charge against the following years, a deduction from the outstanding accounts.

Q. If you have taken your inventory in in the year we are dealing with on a certain basis -- A. It has nothing to do with the inventory. Cash discounts have nothing to do with the inventory.

Q. It has to do with receivables ? A. Yes.

basis and the cash discount is experienced in the following year is that not a real liability ? A. No, it is not. The customer is liable for the amount outstanding. He may take the cash discount.

Q. And it is likely he will ? A. It is not necessarily likely at all.

Q. The reason for setting up a reserve for cash discounts is on account of the company's experience with the customers, is it not ? A. I don't know. This is the first time I have ever seen a reserve for cash discounts set up, as a matter of fact.

Q. It is ? A. Yes.

Q. Do you add it back to profits ? A. We haven't added it back to the operating profits.

Q. What is the idea of setting it up here at the foot of this page ? A. To show that there are these reserves outstanding which if used are there for the benefit of the shareholders.

Q. It would not be proper to add them back to profits with the information available ? I am not saying you have, but I am saying it would not be proper to add them back to profits with the information available ? A. What information?

Q. The information we have to-day.

THE COMMISSIONER: What information do you mean ?

MR. KELLOCK: Well, that is, my lord, that this --

THE COMMISSIONER: What you are getting now from the witness ?

MR. KELLOCK: The information the witness has.

THE WITNESS: I haven't any information.

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basis and the cash discount is experienced in the following year in that full liability [illegible] it is not. The customer is liable for the amount outstanding. He may take the cash discount.

Q. And it is likely he will ? A. It is not necessarily likely at all.

Q. The reason for setting up a reserve for cash discounts is on account of the company's experience with the customers, is it not ? A. I don't know. This is the first time I have ever seen a reserve for cash discounts set up, as a matter of fact.

Q. [illegible] A. Yes.

Q. Do you add it back to profits ? A. We never added it back to the operating profits.

Q. What is the idea of setting it up here at the foot of this page ? A. To show that there are [illegible] the benefit of the shareholders.

Q. It would not be proper to add them back to profits with the information available ? I am not saying you have, but I am saying it would not be proper to add them back to profits with the information available ? A. [illegible]

Q. The information we have to-day.

THE COMMISSIONER: What information do you mean ?

MR. KELLOCK: Well, that is, my Lord, that this --

THE COMMISSIONER: What you are getting now from the witness ?

MR. KELLOCK: The information the witness has.

THE COMMISSIONER: He only tells you it is there in case customers may take advantage of their cash discount privileges in the following year; that is what you say ? A. Yes, it is an appropriation of profits that has been set aside.

Q. He says it is the first time he has seen that done ? A. Yes, for the cash discounts.

Q. Well, we are talking of that ? A. It is a combined reserve.

Q. I know, it is inventory and cash discounts. You don't know how much is for the one and for the other ? A. No, I would think the cash discount reserve would be very small.

MR. McRUER: The total accounts redeivable at the end of 1935 amounted to $450,000.

THE COMMISSIONER: So the cash discount on that would not be very much.

MR.KELLOCK. Then, Mr. Howson, I am asking you -- we will remove from the discussion so much of it as relates to cash discounts--

THE COMMISSIONER: The rest of it is to cover possible losses on the inventory.

MR. KELLOCK: Yes.

BY THE COMMISSIONER: Q. Have other companies set up these inventory reserves ? A. The inventory reserve, some of them have.

MR. KELLOCK: It is a common practice, Mr. Howson?

THE COMMISSIONER: We had one company last week that didn't.

BY MR. KELLOCK: Q. Is it correct to say that

Q. He only tells you it is there in case customers may take advantage of their cash discount privileges in the following year: that is what you say ? A. Yes, it is an appropriation of profits that has been set aside.

Q. He says it is the first time he has seen that done ? A. Yes, for the cash discounts.

Q. Well, we are talking of that ? A. It is a combined reserve.

Q. I know, it is inventory and cash discounts. You don't know how much is for the one and for the other ?

A. No, I would think the cash discount reserve would be very small.

MR. MORTON: The total accounts receivable at the end of 1935 amounted to $485,000.

THE COMMISSIONER: So the cash discount on that would not be very much.

MR. KELLOCK: Then, Mr. Howson, I am asking you — we will reserve from the discussion as much of it as relates to cash discounts--

THE COMMISSIONER: The rest of it is to cover possible losses on the inventory.

MR. KELLOCK: Yes.

BY THE COMMISSIONER: Q. Have other companies set up these inventory reserves ? A. The inventory reserve, some of them have.

THE COMMISSIONER: We had one company last week that didn't.

generally it is a common practice ? A. It isn't a common practice.

Q. In the case of the experience of this company it was very necessary for them to have an inventory reserve, wasn't it ?

MR.McRUER: They had a funny experience.

BY MR. KELLOCK: Q. Was it not ? A. I don't know.

Q. Look at the year 1929 on your summary of operations. The company show a loss there of $150,689.13; is that right ? A. Yes.

Q. In arriving at that figure did the company resort to any part of the reserve for inventory ? A. That is in 1929 ?

Q. Yes ? A. $60,000.

Q. In other words, if they had not had an inventory reserve to fall back on the actual loss was $210,000. in that year ? A. Yes.

Q. Will you look at 1932; the company had a loss that year of $631,000 .? A. Yes.

Q. That is after transferring $250,000. from inventory reserve ? A. Yes.

Q. So, apart from inventory reserve, the actual loss in the year was $881,000. Then, I am asking you if the experience of this company does not show that it is proper and necessary to have an inventory reserve ? A. From a financial standpoint it is a good thing to have reserves of any kind, but from accounting practice, I mean, showing the profits from year to year, the reserve is not a usual practice.

Generally it is a common practice ? A. It isn't

[illegible].

Q. In the case of the experience of this company it was very necessary for them to have an inventory [illegible], wasn't it ?

MR. MONKMAN: They had a funny experience.

BY MR. MILLOCK: Q. Was it not ? A. I don't know.

Q. Look at the year 1929 on your summary of operations. The company show a loss there of $150,838.13; is that right ? A. Yes.

Q. In arriving at that figure did the company resort to any part of the reserve for inventory ? A. That is in 1929 ?

- Yes : A. [illegible].

Q. In other words, if they had not had an inventory reserve to fall back on the actual loss was $210,000. in that year ? A. Yes.

Q. Will you look at 1928; the company had a loss that year of $651,000 .? A. Yes.

Q. That is after transferring $850,000. from inventory reserve ? A. Yes.

Q. So, apart from inventory reserve, the actual loss in the year was $651,000. Then, I am asking you if the experience of this company does not show that it is proper and necessary to have an inventory reserve ?

Q. From a financial standpoint it is a good thing to have reserves of any kind, but from accounting practice, I mean, showing the profits from year to year,

Q. Well, I was not talking about usual practice at the moment, I was just asking -- A. Inventories are taken -- in arriving at profit or loss for the period, inventories are taken at cost or market, whichever is the lower. That is the standard basis. If the company has profits they want to set aside in a special reserve that is another matter.

Q. Do you not say the experience of this company showed it was a necessary and proper thing to do in view of its experience ? A. They probably should have set more aside for that year.

THE COMMISSIONER: Was there any point in calling this an inventory reserve? Apparently it was a reserve they used in later years to reduce losses.

MR.KELLOCK: Yes.

THE COMMISSIONER: Why was it called an inventory reserve? Why wasn't it just called a reserve ? What has it got to do with the inventory ?

BY MR. KELLOCK: Q. You might explain that --

THE COMMISSIONER: Can you explain it ?

MR. KELLOCK: My idea, my lord, is that the loss--

THE COMMISSIONER: I am not making any objection to it as long as those concerned about it knew it was there. As an inventory reserve I would understand it meant to meet losses on the depreciation of your inventory, but here it is used to meet losses on their operations.

MR. KELLOCK: Because, my lord --

THE COMMISSIONER: Not that I am finding fault with that at all. I say why was it called an inventory

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Q. Well, I was not talking about usual practices at the moment, I was just asking -- A. Inventories are taken -- in arriving at profit or loss for the period, inventories are taken at cost or market, whichever is the lower. That is the standard basis. If the company has profits they want to set aside in a special reserve that is another matter.

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reserve ?

MR. KELLOCK: I think the witness has explained, my lord -- not this witness, but other witnesses have explained in 1932 there was a very serious loss in inventory by reason of the drop in raw material.

MR.McRUER: Have they said that ? They said there was a drop in raw material but I do not recollect any of them swearing to the effect that there was a loss in inventory except Mr. Whitehead said they lost on raw cotton. As to the others they said there was a drop but they did not say they lost on inventory. Now, those are two different things.

THE COMMISSIONER: I don't think he said they lost on inventory. He said there was a great drop in the price of raw cotton, for instance.

MR.McRUER: If they buy against sales, buy futures against sales they are not going to lose on their inventory.

THE COMMISSIONER: Excepting they told us that sometimes their buyers go back on them and they made a loss on contracts.

MR. KELLOCK: That is the uniform evidence as I recall it, where there is a drop in raw material then the company itself suffers.

THE COMMISSIONER: These losses are really on the contracts, but as to the accurateness of calling this an inventory reserve, or calling this loss a loss on inventory, that is the question. However, it is a matter of vocabulary.

BY MR. KELLOCK: Q. Mr. Howson, in 1932, when the

reserve ?

MR. KIMLOCK: I think the witness has explained, my lord -- not this witness, but other witnesses have explained in 1932 there was a very serious loss in inventory by reason of the drop in raw material.

MR.McGREGOR: Have they said that ? They said there was a drop in raw material but I do not recollect any of them swearing to the effect that there was a loss in inventory except Mr. Whitehead said they lost on raw cotton. As to the others they said there was a drop but they did not say they lost on inventory. Now, those are two different things.

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company used $250,000. of this inventory reserve to reduce the loss that exhausted the inventory reserve at that time ? A. Yes.

THE COMMISSIONER: Is there any question about whether this so-called inventory reserve was allowed for taxing purposes, whether it was put aside and not taxed and so on ? A. I don't think so, sir. I don't know.

.. as far as you know it was made known ?

MR.McRUER: It does not seem to be shown on the annual statements. That is all that is worrying me at the moment .

THE COMMISSIONER: The annual statement does not show the inventory reserve ?

MR McRUER: It shows a general reserve of $500,000.; that is not it ? A. That is the published annual statement. The company's books do show an inventory reserve.

THE COMMISSIONER: Why should the published annual statement show one thing and the company's books another?

MR. McRUER: The inventories in 1928, which is before the deduction Mr. Kellock spoke about, are stated to be "Inventories of Raw Cotton, Partly Manufactured and Manufactured Stock, Supplies, Chemicals, etc. $2,202,959.30". Now, there is nothing I can see in that statement that indicates that any deduction is made for reserve, and then there is a statement in respect to reserve which is under the surplus account. It says "General Reserve

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company used $250,000. of this inventory reserve to

at that time ?

A. Yes.

MR. CHAIRMAN: Is there any question about whether this so-called inventory reserve was allowed for taxing purposes, because if not they

I don't know.

Q. I don't think so.

Q. As far as you know it was made known ?

A. It does not seem to be shown on the annual statements. That is all that is worrying me at the moment.

THE CHAIRMAN: The annual statement does not show the inventory reserve ?

MR. MCNEIR: It shows a General reserve of $[illegible]; that is $[illegible] ?

A. That is the [illegible] annual statement. The company's books do show an inventory reserve.

Q. [illegible] the annual statement show one thing and the company's books another?

MR. MCNEIR: The inventories in 1939, which is [illegible] the inventories are [illegible] shown there, as stated in "Inventories at Par Value, Partly Manufactured and Manufactured Stock, Supplies, Shipments, etc. $[illegible]". Now, there is nothing I can see in that statement which indicates that any deduction is made for reserve, and then [illegible] attempts to charge it against its

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$500,000.; Profit and Loss Account - Balance as per Statement attached $671,826.81", and then the profit and loss account shows "Net Profit $216,799.81" for the year but I see nothing to indicate in that year there is any reserve for inventory. In the year 1929 --

BY MR. KELLOCK: Q. Mr. Howson, as a matter of ordinary accounting practice would you show such a reserve as an inventory reserve in an annual statement ? A. In a complete annual statement always.

Q. You would ? A. Yes.

MR. McRUER: I doN't see how you can have an honest statement otherwise.

MR. KELLOCK: I am not arguing with you, Mr. McRuer, I am just examining the witness.

THE COMMISSIONER: Pardon me, Mr. Kellock, is it not so much taken out of the year's profit and put aside in the reserve, and that is the reserve for the given year.

MR. KELLOCK: It is built up over a period.

THE COMMISSIONER: Yes, the reservewwas already there, but take each year, take for the given year that report concerns, you deduct so much out of your profits and put it into that reserve. Why should you not show that in your annual statement ? How can you avoid showing it ?

BY MR. KELLOCK: Q. Isn't this the theory, Mr. Howson, that the reserves which are general reserves, and which are not set up by the company for any particular

there is any reserve for inventory. In the year 1929 for the year but I see nothing to indicate in that ye- per Statement attached $671,886.81", and then the $500,000.; Profit and Loss Account - Balance as

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MR. KNILOCK: It is built up over a period.

THE COMMISSIONER: Yes, the reservemen already there, but take each year, take for the given year that report concerns, you cannot so much out of your profits and put it into that reserve. Why should you not show that in your annual statement ? How can

MR. KNILOCK: I don't see the relevancy, Mr. Howson, that the reserves which are general reserves, and which are not set up by the company for any pur-

ticular purpose are shown, but reserves which are set up for particular purposes for which they may be needed, and experience has shown they have been needed, are not shown ? A. In a complete annual statement all reserves should be shown. The practice has grown up in publishing a statement to summarize everything down to the last dollar, down to the last line, but in a complete annual statement the reserves should be always shown as a deduction from the asset to which they are applied.

Q. Then, you are distinguishing between a complete annual statement and the condensed published statement from which my friend is reading ? A. Yes.

BY THE COMMISSIONER: Q. Is that clear; take this condensed statement which has been read. Should that, according to your experience and knowledge, should that have set out this inventory reserve ? A. It should indicate there is a reserve set up against inventory, and it is being done to-day under the amendments to the Dominion Companies' Act.

BY MR. KELLOCK: Q. Prior to that it was not done ? A. It was not legally required.

Q. Ordinarily it was not done in a condensed public statement ? A. I would not say that.

MR. McRUER: My friend should refer to the statement. Take the statement of 1929 as to accounts receivable. They show "Less Reserve for Bad and Doubtful Debts $702,707.81", which is perfectly plain, and it suggests there is a reserve. As to inventory it shows "Inventory of Raw Cotton, Partly Manufactured and

ticular purpose are shown, but reserves which are set up for particular purposes for which they may be needed, and expenditures for which they have been created, if so shown ? A. In a complete annual statement all reserves should be shown. The practice has grown up in the last dollar, down to the last line, but in a complete annual statement the reserves should be always shown as a deduction from the asset to which they are applied.

Then, you are distinguishing between a complete annual statement and the condensed published statement from which my friend is reading ? A. Yes.

BY THE COMMISSIONER: Q. Is that clear; take this condensed statement which has been read. Should that, according to your experience and knowledge, show that have set out this inventory reserve ? A. It should indicate there is a reserve set up against inventory, and it is being done to-day under the amendments to the Dominion Companies' Act.

BY MR. MCCULLOCK: Q. Prior to that it was not done ?

A. It was not legally required.

Q. Ordinarily it was not done in a condensed published statement ? A. I would not say that.

MR.MONROE: My friend should refer to the statement. Take the statement of 1929 as to accounts receivable. They show "Less Reserve for Bad and Doubtful Debts $752,707.81", which is perfectly plain, and it suggests there is a reserve. As to inventory it shows

Manufactured Stock, Supplies, Chemicals, etc. $2,048,493.06", and not a word about less reserve.

MR. KELLOCK: What year is that ?

MR.McRUER: 1929.

THE WITNESS: What does it say about the fixed assets ?

Q. It has "Property:- Real Estate, Buildings, Plant, Machinery, etc. $5,314,181.73", A. And the reserve for depreciation is shown on the statement.

Q. The reserve for depreciation is fully set out, the reserve for mortgage and collateral Trust Bonds Sinking Fund is set out.

THE COMMISSIONER: Is that Wabasso ?

MR.McRUER: Yes. The reserve for Government Taxes is set out; every reserve that we have come across except this inventory reserve is specifically set out in the statement, except the one for Accounts Receivable, and that says "less reserve".

MR. KELLOCK: If my friend is thrugh I would like to ask the witness a question. Mr. Howson, when the company used $60,000. from its inventory reserve in 1929 was anything left in the inventory reserve ?

THE COMMISSIONER: What is that ?

MR. KELLOCK: When the company used $60,000. from its inventory reserve in 1929 was anything left in the inventory reserve ? A. There was $25,000. left.

Q. That is all that was left ? A. Yes.

MR.McRUER: It shows the same when there was $100,000. or $500,000. so there is nothing in that.

$2,040,435.08", and not a word about loss reserve.

MR. KELLOCK: What year is that ?

THE WITNESS: What does it say about the fixed

Q. It has "Property:- Real estate, Buildings, Plant, Machinery, etc. $5,314,181.78", A. and the reserve for depreciation is shown on the statement.

Q. The reserve for depreciation is fully set out, the reserve for mortgage and collateral Trust Bonds sinking fund is set out.

THE COMMISSIONER: Is that right ?

MR. MORTON: Yes. The reserve for Government Taxes is set out; every reserve that we have come across except this inventory reserve is specifically set out in the statement, except the one for Accounts Receivable, and that says "less reserve".

MR. KELLOCK: If my friend is through I would like to ask the witness a question. Mr. Bowen, when the company used $60,000. from its inventory reserve in 1929 was anything left in the inventory reserve ?

MR. MORTON: When the company used $60,000. from its inventory reserve in 1929 was anything left in the inventory reserve ? A. There was $40,000. left.

Q. That is all that was left ? A. Yes.

MR. MORTON: It shows the same when there was

BY MR. KELLOCK: Q. That was all used up by 1932? A. In the meantime it had been built up again to $250,000. by further appropriations.

Q. And all used up in 1932 -- by 1932 ? A. In 1932 it was used up and then they started again.

BY MR.McRUER: Q. How much is it up to now ? A. It is up to $350,000. now.

THE COMMISSIONER: Well, we will have a short recess.

-- The Commission adjourned for a short recess.

Page 12560 follows

-- On resuming.

BY MR. KELLOCK: Q. Mr. Howson, looking at the 1929 annual report of the company, the description on the balance sheet dealing with inventory is as follows:

"Inventory of raw cotton, partly manufactured and manufactured stock, supplies, chemicals, etc.,"

and then the amount follows. There is nothing there as to the basis of taking inventory, is there?

THE COMMISSIONER: What year?

MR. KELLOCK: 1929.

BY MR. KELLOCK: Q. And as you pointed out, Mr. Howson, the Dominion Companies Act was amended in 1934? A. Yes.

Q. And that is the first time there was any requirement as to dealing with the basis of inventory? A. That was the reason the act was amended.

Q. Quite so. What I am asking you is, was it not the common practice prior to 1934 and the amendment to the Act for public companies simply to state their inventory that way, and no say anything about inventory reserve in their published reports to shareholders? A. No, I do not agree with that at all.

Q. You do not think so? A. No.

Q. What do you say was the common practice? A. I would say if they had an inventory reserve, in other words they take their inventories on the usual basis, market or cost, whichever was the lower, which is the usual basis of taking inventories, and

[illegible]

BY MR. [illegible] Q. Mr. Hewson, looking at the 1929 annual report of the company, the directors state as follows:

"Inventory of raw cotton, partly [illegible], chemicals, etc.,"

and then the report follows. There is nothing there as to the basis of taking inventory, is there?

THE COMMISSIONER: What year?

MR. [illegible]: 1929.

BY MR. [illegible]: Q. And as you stated out, Mr. Hewson, the Dominion Companies Act was amended in 1934? A. Yes.

Q. And was it the first time there was any requirement as to dealing with the basis of inventory?

A. That was the reason the act was amended.

Q. Quite so. What I am asking you is, was it not the common practice prior to 1934 and the amendment to the Act for public companies simply to state their inventory that way, and to say anything about inventory reserve in their published reports to shareholders? A. No, I do not agree with that at all.

Q. You do not think so? A. No.

Q. What do you say was the common practice?

A. I would say if they had an inventory reserve, in other words they take their inventories on the usual basis, market or cost, whichever was the lower,

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if they had a profit beyond that, a reserve out of profits, I think they should have shown the reserve as an appropriation of profits or as a deduction from the inventory.

Q. I am not asking you what they should have shown, but what was the common practice prior to 1934. A. I am saying that that would be the common practice.

BY THE COMMISSIONER: Q. Was that the common practice in companies? It is not what you think it ought to have been, but the point is what were the companies doing. A. As far as my experience is concerned, the inventory reserve would be shown.

BY MR. KELLOCK: Q. Not "would be". What was the common practice prior to 1934? A. I am telling you as far as I am concerned the common practice. The common practice was -- I will put it that way -- to show the inventory reserve if there was an inventory reserve set aside out of profits and the inventory was taken on the basis that I have mentioned.

Q. You say that was the common practice? A. As far as I know.

Q. As far as your experience goes? A. Yes.

MR. McRUER: I would like my friend to put a responsible auditor in the box to tell us it was not the common practice.

BY MR. KELLOCK: Q. Would you say that was the common practice whether or not the company's experience showed that the reserve might well be

if they had a profit beyond that, a reserve out of profits. I think they should have shown the reserve as an appropriation of profits or as a deduction from the inventory.

Q. I am not asking you what they should have shown, but what was the common practice prior to 1934. A. I am saying that that would be the common practice.

BY [illegible]: Q. Was that the common practice in companies? It is not what you think it ought to have been, but the point in what were the companies doing. A. As far as my experience is concerned, the inventory reserve would be shown.

BY MR. [illegible]: Q. Not "would be". What was the common practice prior to 1934?

A. I am telling you as far as I am concerned the common practice. The common practice was -- I will put it that way -- to show the inventory reserve if there was an inventory reserve set aside out of profits and the inventory was taken on the basis that I have mentioned.

Q. You say that was the common practice?

A. As far as I know.

Q. As far as your experience goes? A. Yes.

MR. McPEAK: I would like my friend to put a responsible auditor in the box to tell us it was not the common practice.

BY MR. [illegible]: Q. Would you say that was the common practice whether or not the company's experience showed that the reserve might well be

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needed for the purpose for which it was here set up.

THE COMMISSIONER: Just a minute. What do you say?

MR. KELLOCK: I am asking if that was the common practice regardless of whether or not the company's experience showed that the reserve might well be required for the purpose.

THE WITNESS: I think I told you a few moments ago that it was not the common practice to set up reserves for inventories.

THE COMMISSIONER: If you call it an inventory reserve. The only purpose for which it would be used would be to meet losses on inventory.

MR. KELLOCK: Yes, my lord.

THE COMMISSIONER: Not losses in operation.

MR. KELLOCK: Not losses in operation, but losses for the year.

THE COMMISSIONER: And what you are asking now is whether it would be proper not to show what the practice was.

MR. KELLOCK: I am just asking what was the common practice, what the practice was prior to 1934.

BY MR. KELLOCK: Q. If you say, Mr. Howson, that the common practice was to disclose it, then what brought about the amendment?

MR. McRUER: Because some people were not following the common practice, I guess.

MR. KELLOCK: I want the witness to answer, because I understood that that was what brought

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THE COMMISSIONER: Just a minute. What do you say?

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THE COMMISSIONER: If you call it an inventory reserve. The only purpose for which it would be need would be to meet losses on inventory.

MR. MCCLOCK: Mr. Commissioner, I think

THE COMMISSIONER: Not losses in operation.

MR. MCCLOCK: Not losses in operation, but losses on the year.

THE COMMISSIONER: And what you are asking now is whether it would be proper practice also the practice was.

MR. MCCLOCK: I am just asking what was the common practice, what the practice was prior to 1954.

BY MR. MCCLOCK: Q. If you say, Mr. Monson, that the [illegible] what brought about the amendment?

MR. MCRUER: Because some people were not following the common practice, I guess.

MR. MCCLOCK: I went the witness to answer, because I understood that that was what brought

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about the amendment.

THE WITNESS: Because there were certain companies not showing these things in accordance with the common practice.

BY MR. KELLOCK: Q. Which public companies? A. We have had some evidence to that effect here.

Q. I am not speaking of the evidence but entirely of your experience but entirely of your experience and your knowledge. A. Yes, there were some companies that were not disclosing these things.

Q. The other reserve which is on this statement of yours, Reserve for Investments, do you know the reason for that reserve? A. I presume --

Q. Not what you presume. Do you know? A. An investment reserve is set up --

Q. Do you know why it was set up in this company? A. To take care of any loss they would suffer from their investments.

Q. Do you know if they did suffer losses from their investments? A. They charged off, I think, certain items to investment reserve.

Q. Then they did suffer losses in their investments?

THE COMMISSIONER: Pardon me. Was this amount for investment reserve taken out of the annual profits too?

THE WITNESS: It was an appropriation of profits, yes.

BY MR. KELLOCK: Q. Profits, of course, is the only source from which a company can set aside a reserve no matter whether it is depreciation or inventory

about the amendment.

THE WITNESS: Because there were certain companies not showing these things in accordance with the common practice.

BY MR. KELLOCK: Q. Which public accountant?

A. We have had some evidence to that effect here.

Q. I am not speaking of the evidence but entirely of your experience and your knowledge. A. Yes, there were some companies that were not disclosing these things.

Q. The other reserve which is on this statement of yours, Reserve for Investments, do you know the reason for that reserve? A. I suppose --

Q. Not what you presume. Do you know?

A. An investment reserve is set up --

Q. Do you know why it was set up in this company?

A. In case of any loss they would suffer from their investments.

Q. Do you know if they did suffer losses from their investments? A. They cleared off, I think, certain items to investment reserve.

Q. Then they did suffer losses in their investments?

THE CHAIRMAN: Pardon me. Was this amount for investment reserve taken out of the annual profits too?

THE WITNESS: It was an appropriation of profits, yes.

BY MR. KELLOCK: Q. Profits, of course, is the only source from which a company can set aside a reserve no matter whether it is [illegible]

or investment? A. Of course.

THE COMMISSIONER: They have revenue from their investments.

THE WITNESS: Revenue from their investments would be part of the profits.

BY MR. KELLOCK: Q. I am dealing with this company. Firstly, did the company suffer a loss, a shrinkage in its investments, in actual realized loss? A. They made charges against reserve. I have not analyzed the company's statement to know whether they actually disposed of the securities and realized a loss or whether they were providing against the loss in the shrinkage of market values, but they did charge against investment reserve certain items at different times to cover losses, whether realized or not realized I am not sure.

Q. And is it not proper for a company to set up an investment reserve at least to the difference between the market value and the cost to take care of a shrinkage in investments? A. They can either set up a reserve or write off.

Q. All right. Now in connection with this company they did acquire the capital stock of the Shawinigan Cotton Company, did they not? A. Yes.

Q. And as I recall the evidence they first acquired 75 per cent of the stock in 1916, and in 1930 they had it practically all except a few shares? A. Yes, the company was finally merged with the Wabasso Company.

Q. That is not quite an accurate way to put it.

or investment? A. Of course.

their investments.

would be part of the profits.

BY MR. KELLOCK: Q. I am dealing with this company. Firstly, did the company suffer a loss, a shrinkage in its investments, in actual realized loss? A. They made charges against reserve. I have not analyzed the company's statement to know whether they actually disposed of the security and realized a loss or whether they were providing against the loss in the shrinkage of market values, but they did charge against investment reserve certain items at different times to I am not sure.

Q. And is it not proper for a company to set between the market value and the cost to take care of a shrinkage in investments? A. They can either set up a reserve or write off.

Q. All right. Now in connection with this Shawinigan Cotton Company, did they not? A. Yes.

Q. And as I recall the evidence they first acquired 75 per cent of the stock in 1916, and in 1920

A. Yes, the company was finally merged with the Wabasso Company.

Q. That is not quite an accurate way to put it.

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MR. McRUER: It is an accurate way to put it. That is the way they told us.

THE WITNESS: It is incorporated in these figures. The Shawinigan figures are incorporated in these figures.

BY MR. KELLOCK: Q. I am not interested in that for the moment. The Shawinigan Company carried on a cotton business. It was more or less a subsidiary company? A. It was an associated company or an affiliated company through stock ownership.

Q. There was a loss in connection with that company? A. Yes.

Q. As a matter of fact the capital of the company was written down by 1930 99 per cent. That is what the evidence shows, Mr. Howson, and I was wondering why under those circumstances you consolidated the St. Maurice Company with the Wabasso Cotton Company in your statement, but you did not consolidate the Shawinigan Company? A. I would say they were entirely two different situations. The St. Maurice and the Wabasso Companies were from a practical standpoint one company.

Q. What do you mean by that?

MR. McRUER: Probably my friend does not know the circumstances.

MR. KELLOCK: I have read the evidence, and I want the witness to answer.

MR. McRUER: All right. You seem to be afraid of getting the actual facts.

THE WITNESS: The only reason the St. Maurice Valley Company was organized was for the purpose of

MR. MORLEY: It is an accurate way to put it.

THE WITNESS: It is incorporated in three figures. The Shawinigan figures are incorporated in these figures.

BY MR. KELLOCK: Q. I am not interested in that for the moment. The Shawinigan Company carried on a cotton business. It was more or less a subsidiary company?

A. It was an associated

Q. There was a loss in connection with that company?

A. Yes.

Q. As a matter of fact the capital of the company was written down by 1950 99 per cent. That is what the evidence shows, Mr. Howson, and I was wondering why under those circumstances you consolidated the St. Maurice Company with the Wabasso Cotton Company in your statement, but you did not consolidate the Shawinigan Company? A. I would say they were entirely two different situations. The St. Maurice and the Wabasso Companies were from a practical standpoint one company.

Q. What do you mean by that?

MR. MORLEY: Probably my friend does not know the circumstances.

MR. KELLOCK: I have read the evidence, and I want the witness to answer.

MR. MORLEY: All right. You seem to be afraid of getting the actual facts.

THE WITNESS: The only reason the St. Maurice

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raising funds to enlarge the Wabasso plant.

MR. KELLOCK: To build a second plant.

THE WITNESS: Enlarge the Wabasso plant.

MR. KELLOCK: The evidence was to build a second plant.

MR. McRUER: No, the evidence does not say that. You can draw a line through the property, they are under one roof, the two properties, and the evidence was that they kept them separate so as to issue a separate bond issue. They made it another company with a separate bond issue.

MR. KELLOCK: May I in reply to my hon. friend's challenge refer to the evidence of Mr. Whitehead at page 1190 of the evidence. He is asked by my friend at line 27:

"Q. (By Mr. McRuer): Yes. A. You were dealing with the bonus question. I think it is last mentioned. We will clear that up. We wanted to build the second section. We were ready to build another mill and discussing that amongst ourselves, the Board of Directors, we found that the only way we could do that was to issue a second mortgage bond. We wanted to issue more bonds and the second mortgage bond was not so saleable so we decided we would form the St. Maurice Valley Cotton Mills and issue bonds of the St. Maurice Valley Cotton Mills Company."

THE COMMISSIONER: That is right.

MR. KELLOCK: It was to build a second mill, was it not, Mr. Howson ?

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THE COMMISSIONER: A mill under the one roof.

BY MR. KELLOCK: Q. I am asking you, Mr. Howson, why you consolidated the St. Maurice Company with the Wabasso, and why you do not consolidate the Shawinigan Company. Was it merely because of the geographical distance between the two plants? A. Not at all.

Q. What was it? A. The St. Maurice Company was not an operating company at all. All the operations in the two mills were carried on by the Wabasso Company. It was more or less of a fiction as far as the St. Maurice was concerned. You could not get a true picture of Wabasso operations without consolidating these two companies.

BY THE COMMISSIONER: Q. I do not remember — Were there different payrolls, for instance? A. There were no operations, sir, in the St. Maurice Company at all. They just rented the plant to Wabasso Company at a certain figure, and out of that revenue they paid their bond interest and so on, and we have incorporated what was left out of it in here.

BY MR. KELLOCK: Q. You did consolidate Grout's Limited and Valleyfield, where there was no such unity of operation, and where Grout's Limited owned only about 7 per cent of the Valleyfield Company. Why would you consolidate these two companies, and not do it in the case of the Shawinigan? A. I do not know that there was any particular reason.

Q. No particular reason?

MR. McRUER: Shawinigan was a yarn company, to begin with.

THE COMMISSIONER: A mill under the one roof.

BY MR. MACLOCK: Q. I am asking you, Mr. Howson, why you consolidated the St. Maurice Company with the Wabasso, and why you do not consolidate the Shawinigan Company. Was it merely because of the

A. Not at all.

Q. What was it? A. The St. Maurice Company was not an operating company at all. All the operations in the two mills were carried on by the Wabasso Company. It was more or less of a fiction as far as the St. Maurice was concerned. You could not get a true picture of Wabasso operations without consolidating these two companies.

BY THE COMMISSIONER: Q. I do not remember — Were there [illegible], sir, in the St. Maurice Company at all. They just rented the plant to Wabasso Company at a certain figure, and out of that revenue they paid their bond interest and so on, and we have incorporated what was left out of it in here.

BY MR. MACLOCK: Q. You did consolidate Grenet's Limited and Valley Field, where there was no manufacturing or operations, and where Grenet's Limited owned only about 7 per cent of the Valley Field Company. Why would you consolidate these two companies, and not do it in the case of the Shawinigan

A. I do not know that there was any particular reason.

Q. No certain reason?

MR. MACLOCK: Shawinigan was a going company, to deal with.

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MR. KELLOCK: My friend might be able to suggest some reason but I was asking the witness.

MR. McRUER: I will give you that as a reason. I am calling Mr. Howson, to submit this evidence. If you do not want the reason, all right, but there is no use tossing foolish things up in the air just to make a smoke screen.

MR. KELLOCK: I do not know that I am exclusively engaged in tossing foolish things up in the air. I think we have had some of that from you. However, I am dealing with the evidence.

MR. McRUER: There may be some competition but you have a pretty good monopoly of it.

BY MR. KELLOCK: Q. There are one or two other things I want to ask you, Mr. Howson. I want to come to this statement of yours in Exhibit 917, headed "Summary of Operations". Can you give me the make-up of the very first figure on the page, $4,912,409.37 ? A. It is quite a little calculation to work that out at the moment.

Q. Can you tell me generally how you arrive at that figure? A. It is the same basis as the preceding items. We take the assets and deduct the liabilities.

Q. Take all the assets? A. Take the assets and deduct the liabilities.

Q. All the liabilities? A. Yes

Q. And the result is this figure? A. Yes.

Q. You might let me have that memorandum of how it is made up at the recess. A. I will let you have it.

MR. KELLOCK: My friend might be able to suggest some reason but I was asking the witness.

MR. MORDEN: I will give you the reason. I am calling Mr. Howson, to submit this evidence. If you do not want the reason, all right, but there is no use tossing foolish things up in the air just to make a smoke screen.

MR. KELLOCK: I do not know that I am exclusively engaged in tossing foolish things up in the air. I think we have had some of that from you. However, I am dealing with the evidence.

MR. MORDEN: There may be some competition but you have a pretty good monopoly of it.

BY MR. KELLOCK: Q. There are one or two other things I want to ask you, Mr. Howson. I went to come to this statement of yours in Exhibit 317, headed "Summary of Operations". Can you give me the make-up of the very first figure on the page, $4,918,409.37 ? A. It is quite a little calculation to work that out at the moment.

Q. Can you tell me generally how you arrive at that figure? A. It is the same basis as the preceding items. We take the assets and deduct the liabilities.

Q. All the liabilities? A. Yes

Q. And the result is this figure? A. Yes. Now it is made up at the reserve. A. I will let

THE COMMISSIONER: Let me have a copy too.

THE WITNESS: Yes.

BY MR. KELLOCK: Q. On that same page, Mr. Howson, you have about the centre an item, "Revenue from outside investments," $61,013.48. A. Just before you go on to that, I was going to point out that there is an error in this statement of 1928. The capital is incorrect.

BY THE COMMISSIONER: Q. You mean the top figure of $5,000,000 odd. A. Yes, I want to adjust the statement.

Q. You appear to have repeated the preceding figure. A. Yes, we will file an adjusted figure.

BY MR. KELLOCK: Q. Does that error affect your figures lower down? A. It will affect the figures for that year.

Q. I see. All right, you can fix that up. You see the figure to which I drew your attention a moment ago, revenue from outside investments, 1926, $61,013.48. Now when you look over the page --

THE COMMISSIONER: Are you back to the short page now?

MR. KELLOCK: No, it is the next following page. There is no description at the head of it.

THE COMMISSIONER: That is the two companies?

MR. KELLOCK: Yes

BY MR. KELLOCK: Q. You have there, Mr. Howson, an item, Sundry Revenues and interest on Investments, $104,870.63 for 1926 ? A. Yes.

Q. What is the difference between that and the

THE COMMISSION: Let me have a copy too.

THE WITNESS: Yes.

BY MR. KNITTOCK: Q. On that same page, Mr. Dawson, you have about the centre an item, "Revenue from outside investments," $61,018.46. A. Just before you go on to that, I was going to point out that there is an error in this statement of 1928. The capital is incorrect.

BY THE COMMISSION: Q. You mean the top figure of $3,000,000 odd. A. Yes. I went to adjust the statement.

Q. You appear to have repeated the preceding figure. A. Yes, we will file an adjusted figure.

BY MR. KNITTOCK: Q. Does that error affect your figures lower down? A. It will affect the figures for that year.

Q. I see. All right, you can fix that up. You see the figure to which I drew your attention a moment ago, revenue from outside investments, 1929, $61,018.46. Now when you look over the page --

THE COMMISSION: Are you back to the short page now?

MR. KNITTOCK: No, it is the next following page. There is no description at the head of it.

THE COMMISSION: What is the two companies?

MR. KNITTOCK: Yes

BY MR. KNITTOCK: Q. You have there, Mr. Dawson, an item, Sundry Revenues and Interest on Investments, $104,270.12 for 1929 ? A. Yes.

Q. What is the difference between that and the

preceding figure of $61,000 odd that I referred to?

BY THE COMMISSIONER: Q. In the one case you say "Outside Investments". A. I think that will show up in the reconciliation that I will give you because there is an item of $799,000 of bonds of St. Maurice that the Wabasso Company were holding. That revenue had to be adjusted.

BY MR. KELLOCK: Q. What do you mean by that? A. In the capital. It had to be taken into account in dealing with the capital investment in the business when the two companies were amalgamated.

Q. What two companies? A. St. Maurice and Wabasso.

Q. When were they amalgamated? A. In this statement, in the figures here.

Q. Have you not amalgamated them throughout? Your headings would appear to indicate that? A. Yes, but in dealing with the capital investment we had to take that into account. In dealing with the sales it was not particularly necessary.

Q. Then would you give me the particulars of that? A. Yes, we will give you the particulars.

Q. Looking again at this statement, "Summary of Operations" do you see a figure of $189,007.50 for interest on bonds for 1926? A. Yes.

THE COMMISSONER: Where is that?

MR. KELLOCK: It is about the centre of the page, my lord. It is the wide sheet headed "Summary of operations".

THE WITNESS: That is affected by the same item.

preceding figure of £61,000 and that I referred to?

BY THE CHANCELLOR: Q. In the one case you may [illegible]. A. I think that will show up in the reconciliation that I will give you [illegible].

That revenue had to be adjusted.

BY MR. MILLOCK: Q. What do you mean by that? A. In the capital. It had to be taken into account in dealing with the capital investment in the road case when the two companies were amalgamated.

Q. What two companies? A. St. Maurice and Berthier.

Q. When were they amalgamated? A. In this statement, in the figures here.

Q. Have you not amalgamated them throughout? Your headings would appear to indicate that?

we had to take that into account. In dealing with

of that? A. Yes, we will give you this particulars.

Q. Looking again at this statement, "Summary of Operations" do you see a figure of $196,007.50 for interest on bonds for 1897? A. Yes.

THE CHANCELLOR: Where is that?

page, my Lord. It is the wide sheet headed "Summary of operations".

BY MR. MILLOCK: That is effected by the issue of

MR. KELLOCK: Q. And on the next sheet you show interest on bonds $232,364.65 for 1926. You say it is affected by the same item? A. Yes

Q. Generally speaking, what do you mean, what is the difference? A. The company holds its own bonds.

Q. Which company? A. When you take the two companies together as we have done here, one company held $799,000 of bonds of the other company, so we eliminated that from the outstanding bond issue in dealing with the capital investment.

Q. I see. It gives you rather an artificial result. A. No, it would give you an artificial result if you took it the other way. You would be showing an investment which really the company was carrying itself.

Q. All right. Then again on this wide sheet, headed "Summary of Operations", a little above the centre of the page, under the heading "Revenues" you have revenue from operations $370,648.71 for 1926, and that figure is before bank interest and interest, on bonds, is it not? A. Yes, it is the net profit on the sales.

Q. And down at the foot of the page you have "Net Operating Profit" $370,648.71, and you have not taken off the bank interest or interest on bonds? A. No, that is right.

Q. Should not you have done so? A. Not here.

Q. Why not? A. That is the net trading profit.

Mr. K.K. 0003:2.And on the next sheet you show interest on bonds $252,664.65 for 1926. You say it is offsetted by the same item? A. Yes

Q. Generally speaking, would it please, what is the difference? A. The company holds its own bonds.

Q. Which company? A. When you take the two companies together as we have done here, one company held $729,000 of bonds of the other company, so we eliminated that from the outstanding bond issue in dealing with the capital investment.

Q. I see. It gives you rather an artificial result. A. No, it would give you an artificial result if you took it the other way. You would be showing an investment which really the company was carrying itself.

Q. All right. Then again on this wide sheet, headed "Summary of Operations", a little above the centre of the page, under the heading "Revenues" you have revenue from operations $870,646.71 for 1926, and that figure is before bank interest and interest on bonds, is it not? A. Yes, it is the net profit on the sales.

Q. And down at the foot of the page you have "Net Operating Profit" $870,646.71, and you have not taken off the bank interest or interest on bonds? A. No, that is right.

Q. Should not you have done so? A. Not here.

Q. Why not? A. That is the net trading

Q. Is not bank interest a charge on trading profit? A. Not any more than bond interest. It is a case of borrowed money.

Q. In reading that figure at the foot of the page we would always have to bear in mind that the company still had to pay its bank interest and its interest on its bonds? A. Yes, that is clearly shown on the preceding statement.

Q. You would have to go up to the middle of the page to see that it was before bank interest and interest on bonds and income tax?

MR. McRUER: It says net operating profit.

THE WITNESS: It would clarify it if you said, "Net Operating Profit on Sales."

THE COMMISSIONER: Where, for the $370,000 odd?

THE WITNESS: Yes, at the bottom of the page.

MR. McRUER: We will write in the words, "on sales."

MR. KELLOCK: At the foot of the page, "Net Operating Profit on Sales""

THE WITNESS: Yes.

BY THE COMMISSIONER: Q. On the next page your figure is the same, and you have it "Net Profit on Sales," A. Yes, sir. We were a little rushed towards the end, getting this out in a hurry.

BY MR. KELLOCK: Q. And your language is not as accurate as you would like it to be? A. It might have been if we had had a little more time. We had to get this out as rapidly as we could.

MR. McRUER: The figures are accurate.

MR. KELLOCK: They are accurate if we know what they mean.

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BY MR. KELLOCK: Q. You have been good enough, Mr. Howson, to prepare some figures in connection with this company, and the net profits on sales from 1926 to 1930 inclusive you show as $1,614,046.34. Income tax paid in the same period -

THE COMMISSIONER: Is that part of the figure we have just been discussing?

MR. KELLOCK: Yes.

THE COMMISSIONER: It amounts to --

MR. KELLOCK: $1,614,046.34. Income tax paid in the same period, Dominion income tax, $44,814.77. Mill wages and salaries in the same period --

THE COMMISSIONER: What do you mean by salaries? How high do you go?

MR. KELLOCK: Office salaries and selling expenses.

THE WITNESS: No, these are just mill salaries.

MR. KELLOCK: Quite right. That figure is $1,226,620, and in the period 1931 to 1935, the net profit on sales --

THE COMMISSIONER: You stop at 1935. You do not take in the ten months of 1936.

MR. KELLOCK: No, they are not given here, my lord.

THE COMMISSIONER: They are given here.

MR. KELLOCK: Mr. Howson has not included them in his computation, $1,156,096.51. Mr. Howson's figure is before bond interest and bond interest, and this --

THE WITNESS: Yes, they are the net profits on the sales.

BY MR. KELLOCK: Q. I will ask you, Mr. Howson, to put it up that way for me. I want to know the

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net profits, not the particular kind of net profits. I want the company's net profits as against taxes and wages.

THE COMMISSIONER: The net profits of the company, not the net profits on sales.

MR. KELLOCK: Yes.

THE COMMISSIONER: Then the whole thing is to be wiped out. You do not want the addition of these figures at the foot of the page?

MR. KELLOCK: No.

MR. McRUER: Instead of having them put it in this way, let us have them put in a statement for each mill and show the net profits on sales and the net profit of the company, because it is interesting for us to see howmuch the wage earners get out of it, and how much the bankers and investors get out of it, so that we can see whether protective tariffs are for the benefit of wage earners or bankers.

MR. KELLOCK: I disclaim any interest in the bankers.

BY MR. McRUER: Q. Just a word, Mr. Howson, in reference to the $75,000 that was given as a bonus by the city of Three Rivers. You included that in your figure of capital invested in the company? A. Yes, it had been received by the company by that time and had gone into its funds.

BY THE COMMISSIONER: Q. Didn't you say that only a portion of it had been received? A. But it was set up on the company's books as an asset.

BY MR. McRUER: Q. So in taking the figure of percentage of profit from operations or percentage of revenue from operations to actual investment, that

net profits, not the particular kind of net profits.
I want the company's net profits as against taxes
and wages.

THE COMMISSIONER: The net profits of the
company, not the net profits on sales.

MR. [illegible]: Yes.

THE COMMISSIONER: Then the whole thing is to
be wiped out. You do not want the addition of
these figures at the foot of the page?

MR. [illegible]: No.

MR. [illegible]: Instead of having them put it in
this way, let us have them put in a statement for
each mill and show the net profits on sales and the
net profit of the company, because it is interesting
for us to see howmuch the wage earners get out of
it, and how much the bankers and investors get out
of it, so that we can see whether protective tariffs
are for the benefit of wage earners or bankers.

MR. [illegible]: I dispute any interest in the
bankers.

MR. [illegible]: [illegible], Mr. Chairman,
in reference to the $75,000 that was given as a
bonus by the city of Three Rivers. You included that
in your figure of capital invested in the company?
A. Yes, it had been received by the company by that
time and had gone into its funds.

BY THE COMMISSIONER: Q. Didn't you say that
only a portion of it had been received? A. But
it was set up on the company's books as an asset.

BY MR. McNUTT: Q. So in taking the figure of
percentage of profit from operations or percentage of
revenue from operations to actual investment, that

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would be calculated on an investment with the inclusion of that $75,000? A. Yes.

Q. So that if we were looking at this for tariff purposes, that is giving the company the benefit of earning money on the money they got as a bonus from the city of Three Rivers to start business? A. Well, it is giving them the benefit of that capital.

Q. Well, I am not quite willing to concede that we should have a tariff to protect companies to make sure that they earn a dividend on money that is given them as a bonus to start up business with, but my friend and I will argue that later.

MR. KELLOCK: You are not suggesting that Three Rivers was paid the interest on the bonds?

MR. McRUER: Your clients seem to contend that they should have an earning of so much per cent per annum on the bonds they got from Three Rivers. I would take it out of this statement altogether.

MR. KELLOCK: We are just concerned with having an accurate statement.

MR. McRUER: If they were accurate they would take it out altogether. Mr. Howson has been generous with you.

BY MR. McRUER: Q. In reference to this question of reserves, Mr. Howson, how can a shareholder who invests his money in a company and for whom the directors are trustees know what his shares are worth unless the reserves are all shown in the balance sheet. A. He can't know.

Q. He can't know. Now take this balance sheet

would be calculated on an investment with the
inclusion of that $75,000?

A. Yes.

Q. So that if we are looking at this for
tariff purposes, that is giving the company the
benefit of earning money on the money they got as
a bonus from the city of Three Rivers to start
business?

A. Well, it is giving them
the benefit of that capital.

Q. Well, I am not quite willing to concede
to make sure that they earn a dividend on money
that is given them as a bonus to start up business
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MR. KELLOCK: We are just concerned with having
an accurate statement.

MR. McRUER: If they were accurate they would
take it out altogether. Mr. Howson has been
generous with you.

BY MR. McRUER: Q. In reference to this
question of insurance, Mr. Howson, have the direc-
tors ever considered the question of setting aside
some fund to insure the company against loss?

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in the annual report of 1928 for Wabasso Cotton Company, in respect to the inventory reserve for that year before it was encroached on in 1929. The balance sheet reads as follows:

Current Assets:-

Cash on hand and in bank	$42,118.18
Victory bonds, call loans, etc.	$294,654.00
Accounts receivable, less reserve for bad and doubtful debts	433,575.75
Inventories of raw cotton, partly manufactured and manufactured stock, supplies, chemicals, etc.	$2,202,959.30

Now how much was the inventory reserve in 1928?

A. At the end of 1928?

Q. 30th of June 1928. A. It was $85,000.

Q. $85,000 ? Now if a shareholder looking at this statement was to get a proper appreciation of the position of the company you say that that should have been shown under the heading of reserves against inventory? A. Yes.

Q. Or against loss on inventory? A. Yes.

Q. And that the value of the inventory on the other side of the balance sheet should have been increased by $85,000? A. Yes.

Q. That is, show it at cost or market, and then if you wish to have a reserve against loss on that basis, set up under liabilities a reserve for the amount that you hold? A. Yes, because the reserve is a reserve against future loss.

Q. You have not incurred that loss yet?

A. No.

Q. You may never incur it? A. Yes.

in the annual report of 1928 for Indiana Cotton Company, in respect to the inventory reserve for that year before it was encroached on in 1929.

The balance sheet reads as follows:

Current Assets:-

Cash on hand and in bank $42,118.18

Victory bonds, call loans, etc. 2,004,250.00

Inventories of raw cotton, partly manufactured and manufactured stock, supplies, chemicals, etc. $2,802,930.80

Reserve for bad and doubtful debts 688,375.75

Now how much was the inventory reserve in 1928?

A. At the end of 1928?

Q. 30th of June 1929. A. It was $85,000.

[illegible] If a man looking at this statement was to get a proper appreciation of the position of the company you say that that should have been shown under the heading of reserves against inventory? A. Yes.

Q. Or against loss on inventory? A. Yes.

Q. And that the value of the inventory on the other side of the balance sheet should have been increased by $85,000? A. Yes.

[illegible] then if you wish to have a reserve against loss on that basis, you [illegible] reserve for the reserve is a reserve against future loss.

Q. You have not incurred that loss yet?

A. No.

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Q. You may make a profit on it? A. Yes.

Q. And if the company wanted to show a more favorable balance sheet they might have written up the reserves and been equally honest, I will say, as showing it in this way ? If they thought raw cotton was going up they might have shown their inventory at a higher price? A. I do not think they would do that.

Q. What right have they got to speculate in their investments as to whether it is going up or down --

MR. KELLOCK: They do not speculate.

THE WITNESS: The reserve is set up to provide against future losses, and it should be shown as such.

BY MR. McRUER: Q. Yes. Then we come to the next year, 1929, when, as my friend has brought out from you, there was a transfer from that reserve of about, what was it, $60,000 ? A. $60,000.

Q. $60,000 that year. Now the annual statement shows:

> "Profit for the year ended 30th June, 1929, after deducting all manufacturing and other charges and expenses, but before providing for depreciation, bond interest and sinking fund, . . . $81,949.66

Now that would be after transferring that $60,000 from the reserve? A. Yes.

Q. Do you think if that had not been transferred from the reserve the profit would have been

Q. Did you make a profit on it?

A. Yes.

Q. And they also made a profit, too.

Q. Did it ever occur to you that you were more favorable before sheet they might have written up the reserve and been equally honest, I will say, as showing it in its way? If they thought raw cotton was going up they might have shown their inventory at a higher price? A. I do not think they would do that.

Q. What right have they got to speculate in their investment as to whether it is going up or down --

THE WITNESS: The reserve is setup to provide against future losses, and it should be shown as such.

Q. [illegible] -- Yes. [illegible] next year, 1929, when, as my friend has brought out from you, there was a transfer from that reserve of about, what was it, $60,000? A. $60,000.

Q. $60,000 that year. How the annual statement shows:

1929, after deducting all manufacturing and other charges and expenses, but before providing for depreciation, bond interest and sinking fund, . . . $1,969,88

Now that would be after transferring that $60,000 from the reserve? A. Yes.

Q. Do you think if that had not been transferred

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shown at $21,949.66. A. It would have shown the difference.

Q. Yes. Then again the assets are shown as:

"Accounts Receivable, less reserve for bad and doubtful debts, ... $702,707.81

Inventory of raw cotton, partly manufactured and manufactured stock, supplies, chemicals, etc., ... $2,048,493.06

Now when did they start to build up the reserve again? When was there an addition to it?

A. The next year.

Q. 1930. How much did they add to the reserve in 1930? A. $100,000.

BY THE COMMISSIONER: Q. Out of their profits?

A. Yes.

Q. For that year? A. Yes.

BY MR. McRUER: Q. The profit as set out in the Profit and Loss account for 1930, as printed and sent to the shareholders, the profit for the year ended June 30, 1930, after deducting all manufacturing and other charges and expenses but before providing for depreciation, bond interest and sinking fund --

THE COMMISSIONER: They do not say inventory reserve.

MR. McRUER: No, my lord, it is after providing for depreciation, bond interest and sinking fund.

THE COMMISSIONER: How much?

MR. McRUER: $415,817.93.

THE COMMISSIONER: That should have been $500,000 and something.

Treasurer for bad and doubtful
debts, ... $705,707.11

Inventory of raw cotton,
partly manufactured and
manufactured stock, supplies,
materials, etc., ... $2,048,852.06

how when did they start to build up the reserve
again? When was there an addition to it?

A. [illegible]

Q. 1920. How much did they add to the
reserve in 1920? A. $100,000.

BY THE CHAIRMAN: Q. Out of their profits?

A. Yes.

Q. For that year? A. Yes.

BY MR. MORRIS: Q. The profit as set out in
the Profit and Loss account for 1920, as printed
and sent to the shareholders, the profit for the
year ended June 30, 1920, after deducting all manu-
facturing and other charges and expenses but before
providing for depreciation, bond interest and
sinking fund --

THE CHAIRMAN: They do not say inventory
reserve.

MR. MORRIS: No, my Lord, it is after providing
for depreciation, bond interest and sinking fund.

THE COMMISSIONER: How much?

BY MR. McRUER: Q. If the reserve had been taken at cost or market, whichever is lower, and nothing had been added to the inventory reserve, it would have been another $100,000? A. Yes.

Q. Under the heading of Assets I find in the annual report for 1930:

"Inventory of raw cotton, partly manufactured and manufactured stock, supplies, etc., ... $2,200,553.53.

If the reserve had not been taken out of that, it would have been how much more? A. $125,000 more on June 30.

And now I want to see what was said to the shareholders in the report for that year:

"The result of the year's operations is fully set forth -- "

fully set forth:

THE COMMISSIONER: That means four-fifths set forth.

MR. McRUER: It reads:

"The result of the year's operations is fully set forth in the appended consolidated Profit and Loss Account, from which it will be observed that, after making provision for all charges, including bond interest and sinking fund, and making the usual allowance for depreciation of property and plant, there is a net loss of $52,360.52."

THE COMMISSIONER: What year did you say that was?

BY Mr. McNAB: Q. If the reserve had been taken at cost or market, whichever is lower, and nothing had been added to the inventory reserve, it would have been another $100,000? A. Yes.

Q. Under the heading of Assets I find in the annual report for 1930:

"Inventory of raw cotton, partly manufactured and manufactured stock, supplies, etc., ... $2,200,553.83.

If the reserve had not been taken out of that, it would have been how much more? A. $125,000 more on June 30.

And now I went to see what was said to the shareholders in the report for the next year:

"The result of the year's operations is fully set forth --"

FULLY set forth:

THE COMMISSIONER: That means four-fifths of it.

Q. READING: It reads:

"The result of the year's operations is fully set forth in the appended consolidated Profit and Loss Account, from which it will be observed that, after making provision for all charges, including bond interest and sinking fund, and making the usual allowance for depreciation of property and plant, there is a net loss of $925,380.82."

THE COMMISSIONER: What year did you say that

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MR. McRUER: This is for 1930. It is the consolidated statement. It goes on:

"This amount, together with the deficit of the Shawinigan Cotton Company, Limited, has b been deducted from Surplus Account, leaving a balance to be carried forward of $383,214.00."

Q. Now if there had been no transfer to inventory reserve that year, instead of the statement showing there had been a net loss it would have shown a net profit of about $50,000 ?

A. The difference between the loss and the $100,000.

Q. And they show a net loss of $52,360.52. The statement continues:

"Notwithstanding the continued adverse conditions in the cotton trade throughout the year, your Directors are pleased to report that, due to improved manufacturing facilities and careful management, your Companies have shown improved results over the previous year. Steady progress is being made in the merchandising of your Companies product, every effort being put forth to retain their market against foreign competition."

That was June 30, 1930. I will put forward some further evidence later on.

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-- The Commission adjourned at 12.30 p.m., to resume at 2.15 p.m.

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(Page 12581 follows)

MR. McNAIR: This is for 1930. It is the consolidated statement. It goes on:

"This amount, together with the deficit of the Shawinigan Cotton Company, Limited, has been charged [illegible] Account, leaving a balance to be carried forward of $883,814.00."

Q. Now if there had been no transfer to inventory reserve that year, instead of the statement showing there had been a net loss it would have shown a net profit of about $50,000 ?

A. The difference between the loss and the $100,000.

Q. And they show a net loss of $82,380.52.

The statement continues:

"Notwithstanding the continued adverse conditions in the cotton trade throughout the year, your Directors are pleased to report that, due to improved manufacturing facilities and careful management, your Companies have shown improved results over the previous year. Steady progress is being made in the modernizing of our [illegible], some efforts being put forth to retain their market against foreign competition."

That was June 30, 1930. I will put forward some further evidence later on.

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-- The Commission adjourned at 12.50 p.m., to resume at 2.15 p.m.

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(Page 18861 follows)

MR. McRUER: Q. I think we had just dealt with the year 1930, Mr. Howson, in reference to this inventory reserve in the year 1931? A. $125,000.

Q. I see from the Annual Statement, part of Exhibit 74, that in the Consolidated Profit and Loss Account, the profit for the year ended 27th June, 1931, after deducting all "Manufacturing and other Charges and Expenses, but before providing for depreciation, Bond Interest, Sinking Fund and Bond Discount $448,213.33.

THE COMMISSIONER: Q. Now, does this mean, what we have just heard, that amount should be $125,000 there? A. Yes, sir.

Q.MR. McRUER: And the inventory is dealt with under the heading of $Assets" inventory of raw cotton, partly manufactured and manufactured stock, supplies, etc." $2,043,147.60. So that if the Inventory was taken on the basis of cost or market that would be increased by the $125,000? A. No, the balance would be increased by the $250,000.

Q. That is, $125,000 that was transferred this year and previous? A. And what was accumulated prior to that.

Q. Now, there is also a statement under "Liabilities" Q--Reserve for depreciation, $2,812,189.14,$ and general reserve and there is a contingent liability set up for bills receivable under discount - that would be the same or part of the Bills Receivable? A. No, that is just under a foot note, that reads Bills that have

year 1930, Mr. Morton, in reference to this inventory reserve in the year 1931? A. $125,000.

Q. I see from the annual Statement, part of Exhibit 74, that in the Consolidated Profit and Loss Account, the profit for the year ended 27th June, 1931, after deducting all "Manufacturing and other Charges and Ex-enses, but before providing for depreciation, Bond Interest, Sinking Fund and Bond Discount $449,813, [illegible] Q. Now, does this mean, what we have just heard, that amount should be $125,000 more?

A. Yes, sir.

Q.MR. MORTON: And the inventory is dealt with under the heading of "Assets" Inventory of raw cotton, partly manufactured and manufactured stock, supplies, etc." $2,042,147.00. So that if the Inventory was taken on the basis of cost or market that would be increased by the $125,000? A. No, the balance would be increased by the $125,000.

Q. That is, $125,000 that was transferred this year and previous? A. And what was accumulated prior to that.

Q. Now, there is also a [illegible] under [illegible] reserve and there is a contingent liability set up for bills receivable under discount - that would be the same or part of the Bills Receivable? A. No, not

been discounted with the Bank, don't appear in the Statement at all. It is contingent liability if the customer does not---

Q. Does not come under this item - accounts receivable and amount reserved for bad and doubtful debts? A. No, it has been taken out of that. The Company has the money, it is under discount with the bank.

Q. The bills have not become due yet? A. No.

Q. Let us go to the year 1932. That has already been dealt with in a measure by my friend. In this year the inventory reserve was drawn on and some other reserves were drawn on? A. Yes, inventory was drawn on to the extent of $250,000 and investment $28,934.79 and the income tax reserve to the extent of $136,595.45.

Q. The statement that iscontained in this Balance Sheet reads as follows; in reference to Profit and Loss Account : "Profit for the year ended 2nd July, 1932, after deducting all Manufacturing and other Charges and Expenses, but before providing for depreciation, bond interest, sinking fund and bond discount, and including Reserve of $136,595.47 not required and re-transferred....."

THE COMMISSIONER: "Not required and re-transferred."

MR. McRUER: Yes. $174,616.72. Now, where did the $136,595.47 come from? A. From a reserve

been discounted with the Bank, don't appear in the statement at all. It is contingent liability if the customer does not---

Q. Does not come under this item - accounts receivable and amount reserved for bad and doubtful debts? A. No, it has been taken out of that, the Company has the money, it is most discount with the bank.

Q. The bills have not become due yet? A. No.

Q. Let us go to the year 1932. That has already been dealt with in a measure by my friend. In this year the inventory reserve was drawn on and some [illegible] Yes, inventory was drawn on to the extent of $300,000 and investment $86,394.79 and the income tax reserve to the extent of $135,805.45.

Q. The statement that is contained in this Balance Sheet reads as follows; in reference to Profit and Loss Account : "Profit for the year ended 31st July, 1932, after deducting all Manufacturing and other Charges and Expenses, but before providing for depreciation, bond interest, sinking fund and bond discount, and [illegible] reserve of $394,894.47 was required and is transferred....."

THE COMMISSIONER: "Not required and re-transferred".

MR. MORDEN: Yes. $174,816.72. Now, where did

that had been set up in Previous years to meet income taxes.

THE COMMISSIONER: Not from this Inventory Reserve? A. No, this was a separate reserve.

MR. McRUER: Q. But they did transfer how much from the Inventory Reserve? A. $250,000.

Q. But that is not shown on this Statement as a transfer from the Inventory Reserve? A. No.

THE COMMISSIONER: How is it shown?

MR. McRUER: It is not shown at all. This is how it reads: "Profit for the year ended 2nd of July, 1932, after deducting all manufacturing and other charges and expenses, but before providing for depreciation, bond interest, sinking fund and bond discount, and including Reserve of $136,595.57 not required and re-transferred, $174,616.72."

Q. Now, in looking at that statement, Mr. Howson, would one not conclude that this Company had made a profit of $174,615.72 with the exception of $136,595.47, which had been transferred from the old reserve? A. That is what the statement indicates.

Q. But as a fact the Company had made a loss of how much when you take it all into consideration.

THE COMMISSIONER: You would have to add $250,000 to $38,000.

MR. McRUER: A little more than that because they drew on other reserves besides the inventory.

THE WITNESS: They drew on the other reserves to the

taxes.

THE COMMISSIONER: Not from this Inventory Reserve?

A. No, this was a separate reserve.

MR. MONROE: Q. But they did transfer how much from the Inventory Reserve? A. $350,000.

Q. But that is not shown on this Statement as a transfer from the Inventory Reserve? A. No.

THE COMMISSIONER: How is it shown?

MR. MONROE: It is not shown at all. This is how it reads: "Profit for the year ended 2nd of July, 1932, after deducting all manufacturing and other charges and expenses, but before providing for depreciation, bond interest, sinking fund and bond discount, and including Reserve of $156,395.97 not required and re-transferred, $174,814.76."

Q. Now, in looking at that statement, Mr. Howson, would one not conclude that this Company had made a profit of $174,814.76 with the exception of $156,395.97 which had been transferred from the old reserve?

A. That is what the statement indicates.

Q. But as a fact the Company had made a loss of how much when you take it all into consideration.

THE COMMISSIONER: You would have to add $350,000 to $58,000.

MR. MONROE: A little more than that because they drew on other reserves besides the Inventory.

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extent of $298,979.

Q. That is including the Inventory reserve? A.Yes.

Q. And you add $38,000 to that? A. $28,934.79.

Q. So that they were, instead of making a profit that year of about $38,000, as this statement would indicate, they had made a loss of between $250,000 and $300,000? A. They show a profit of how much there?

Q. About $38,000.

THE COMMISSIONER: You subtract, come to about $38,000. You subtract from $174,000. No, rather the other way around.

THE WITNESS: Which figure are you dealing with?

MR. McRUER: Q. I am talking of profit from manufacturing? A. The $250,000 would be the only thing that would be dealt with there. The $38,000 would come in down here.

Q. Yes, but on their manufacturing account this states that the profit after deducting all manufacturing charges? A. Yes, should be the difference between $250,000 and $174,000, the loss ---

Q. Well, at any rate ---

THE COMMISSIONER: What was done on the footing of that report?

MR. McRUER: I don't know.

THE COMMISSIONER: That shows a small profit there. What was done on the footing of it? For instance, was dividends paid?

extent of $288,279.

Q. That is including the Inventory reserve? A. Yes.

Q. And you add $38,000 to that? A. $88,284.79.

Q. So that they were, instead of making a profit that year of about $38,000, as this statement would indicate, they had made a loss of between $250,000 and $300,000? A. They show a profit of now ma

Answer

A. About $88,000.

THE COMMISSIONER: Not material, really is about $38,000. You subtract from $174,000. No, rather the other way around.

THE WITNESS: Which figure are you dealing with?

MR. MORDEN: Q. I am talking of profit from manufacturing? A. The $250,000 would be the only thing that would be dealt with there. The $88,000 would come in down here.

Q. Yes, but on their manufacturing account this charges? A. Yes, should be the difference between $250,000 and $174,000, the loss ---

Q. Well, at any rate ---

THE COMMISSIONER: What was done on the footing of that report?

MR. MORDEN: I don't know.

THE COMMISSIONER: They show a profit there. What was done on the footing of it? For instance,

MR.McRUER: No.

THE COMMISSIONER: You do not know if the taxes were paid?

MR. McRUER: I don't know about that. There would not be any tax because there was a net loss.

THE COMMISSIONER: On proper accounting there would not be but you say they say there actual profit.

MR. McRUER: No, this is manufacturing profit but they show a net loss later on. They deduct the depreciation, bond interest, sinking fund.

THE COMMISSIONER: All this is before these deductions?

MR. McRUER: Yes. I am looking at it from the point of the shareholder more for the moment who might read the statements, and any other person interested in the affairs of the country.

Q. Well then, their inventory is shown here at $1,300,000, about ~~it~~ $1,400,000 the previous year. This, of course, would be under-stated by how much this year, after they had drawn on the --- A. Well, it would be correct that year because they had used up all their reserves.

Q. They had used up all their reserves? A. Yes.

Q. Well, we go---

THE COMMISSIONER: Q. Would be correct, according to the basis --- A. Yes, according to the basis they were valuing it at. That is, there would be no adjustment for reserve or anything of that kind

MR. MORGAN: No.

THE COMMISSIONER: You do not know if the taxes were paid?

MR. MORGAN: I don't know about that. There would not be any tax because there was a net loss.

THE COMMISSIONER: Or proper accounting there would not be but you say they say there actual profit.

MR. MORGAN: No, this is manufacturing profit but they show a net loss later on. They deduct the depreciation, bond interest, sinking fund.

THE COMMISSIONER: All this is before these deductions?

MR. MORGAN: Yes. I am looking at it from the point of the shareholder more for the moment who might read the statements, and any other person interested in the affairs of the country.

Q. Well then, their inventory is shown here at $1,900,000, about $\frac{1}{2}$ $1,400,000 the previous year. This, of course, would be under-stated by how much this year, after they had drawn on the --- A. Well, it would be correct that year because they had used up all their reserves.

Q. They had used up all their reserves? A. Yes.

Q. Well, it [illegible]---

MR. MORGAN: A. Would be correct, according to the basis --- A. Yes, according to the basis they were valuing it at. That is, there would be no

affecting it.

MR. McRUER: Q. Then we go to the year 1933 now. What transfer was there to inventory reserve that year? A. $100,000.

Q. Out of profits you mean? A. Yes.

Q. Now, the statement in regard to the operations of the Company that year are as follows: "Profit for the year ended 1st of July, 1933, after deduting all manufacturing and other Charges and Expenses, including provisions for Income Tax, but before providing for Depreciation, bond Interest, Sinking Fund, and Bond Discount, $528,274.33," and the depreciation on property, Bond Interest, Sinking Fund, Bond Discount, are deducted and shows a net profit for the year of $21,443.24. Now, if that transfer had not been made to the Inventory Reserve of course this then would have been $121,000? A. Yes, $100,000.

Q. Now, the net inventory is shown at a very low figure compared with the previous year of $950,766.94. Of course, if that is brought up to --- That should be increased by $100,000? A. Yes.

Q. Then how much was transferred in the year 1934? A. $90,000.

Q. Now, the Profit and Loss Account contains the statement,"Profit for the year ended 30th June, 1934, after deducting all Manufacturing and other charges and Expenses, including provision for Income Tax, but before providing for Depreciation, Bond Interest,

affecting it.

MR. MORSEN: Q. Then we go to the year 1933 now. What transfer was there to Inventory Reserve that year?

A. $100,000.

Q. Out of profits you mean? A. Yes.

Q. Now, the statement in regard to the operations of the Company that year are as follows: Profit for the year ended 1st of July, 1933, after deducting all manufacturing and other Charges and Expenses, including provisions for Income Tax, but before providing for Depreciation, Bond Interest, Sinking Fund, and Bond Discount, $528,374.55," and the depreciation on property, Bond Interest, Sinking Fund, Bond Discount, are deducted and shows a net profit for the year of $21,668.54. Now, if that transfer had not been made to the Inventory Reserve of course this then would have been $121,000?

A. Yes, $121,000.

Q. Now, the net Inventory is shown at a very

Of course, if that is brought up to --- That should be

Q. Then how much was transferred in the year 1934?

A. $50,000.

Q. Now, the Profit and Loss Account contains the statement, "Profit for the year ended 31st July, 1933,

Sinking Fund and Bond Discount, $752,874.60," and they added "Interest on "Investments,"and deduct depreciation, Bond Interest, Sinking Fund, Bond Discount and the Net Profit for the year $146,743.45, and that you say would be increased by $90,000 if the transfer to Inventory Reserve had not been made? A. Are you dealing with the balance sheet?

Q. No, dealing with the Profit and Loss Account and the Balance Sheet shows an inventory of $1,422,006.42. Now, that would be increased that year by how much? A. $190,000.

Q. Then come to 1935, how much was transferred to Inventory? A. $50,000.

Q. $50,000 you say transferred? A. Yes.

Q. The profit is shown that year, $809,369.53.

THE COMMISSIONER: What profit?

MR. McRUER: That is manufacturing profit. The interest on investments $62,711.99 and the depreciation on the plant at $392,400.00, and then we have Bond Interest, Directors Fees, Reserve for Government Taxes, Sinking Fund, Bond Discount and the Net Profits for the year $147,629.95., and that should be then increased by $50,000.? A. Yes.

Q. And for this year for the first time the statement in regard to inventory reads as follows: "Inventory of Raw Cotton, partly manufactured and manufactured stock, supplies, etc., as determined and certified by the Management, and valued as to Raw Cotton,

Sinking Fund and Bond Discount, $758,874.60," and they added "Interest on Investments," and deduct depreciation, Bond Interest, Sinking Fund, Bond Discount and the Net Profit for the year $146,742.45, and that you say would be increased by $90,000 if the transfer to Inventory Reserve had not been made? A. Are you dealing with the balance sheet?

Q. No, dealing with the Profit and Loss Account now, that would be increased that year by how much?

A. $130,000.

Q. Then come to 1935, how much was transferred to Inventory? A. $80,000.

Q. The profit is shown that year, $203,965.85.

Mr. Monkman: That is manufacturing profit. The interest on Investments $65,711.39 and the depreciation on the plant at $332,400.00, and then we have Bond Discount, Directors Fees, Reserve for Government Taxes, Sinking Fund, Bond Discount and the Net Profits for the year $147,[illegible]

Q. And for this year for the first time the statement in regard to Inventory reads as follows:

at cost which is less than prevailing market prices, and as to merchandise and supplies at average cost or less, and not over replacement values, less Reserves."

THE COMMISSIONER: What does that mean, "average cost or less" how much less?

MR. McRUER: Does not say, my lord. On the reading of it it would rather indicate that the inventory was still valued lower than cost or market less reserves. It reads this way, "as determined and certified by the Management, and valued as to Raw Cotton at cost, which is less than prevailing market prices, and as to merchandise and supplies at average cost or less, and not over replacement values, less reserves."

THE COMMISSIONER: What is the figure?

MR. McRUER: $1,271,068.48.

THE COMMISSIONER: That is 1935?

MR. McRUER: Yes, 1935 statement, my lord.

Q And, again, there is nothing in this Balance Sheet, is there, to show what the amount of the Reserve was? A. No, it does not.

Q. Well then, what was the highest figure that this Reserve reached prior to 1930? A. I cannot tell you.

Q. Have you not got the yearly figures of the reserve? A. I have not got the yearly figure prior to 30th of June, 1926.

Q. Well, do you know when the reserve was first set up? A. No.

Q. Well then, what have you got on it, year by year?

cost or less, and not over replacement values, less Reserve."

THE COURT: What does that mean, "average cost or less" how much less?

MR. MORROW: Does not say, my lord. On the reading of it it would rather indicate that the inventory was still valued less than ... It reads this way, "as determined and certified by the Government, and valued as to New Cotton at cost, which is less than prevailing market prices, and as to merchandise and supplies at average cost or less, and not over replacement values, less reserves."

THE COURT: What is the figure?

MR. MORROW: $1,871,088.46.

THE COURT: That is 1920?

Q. And, again, there is nothing in this Balance Sheet, is there, to show what the amount of the Reserve

A. No, it does not.

Q. Well then, what was the highest figure that this Reserve reached prior to 1920? A. I cannot tell

Q. Have you not got the yearly figures of the reserve? A. I have not got the yearly figure

Q. Well, do you know when the reserve was first

as far as it goes? A. Well, at the end of June, 1926, $85,000. 1927, the same amount. 1928, the same amount. 1929 it dropped to $25,000, and 1930 came up to $125,000. In 1931 it came up to $250,000, and then it was wiped out and then 1933 it started again with $100,000. 1934 $190,000. 1935 $240,000, and May, 1936, $350,000.

Q. Well, then you have not any information as to when it was set up? A. Not in this Company.

Q. And what has been taken prior to 1926?

A. No.

MR. McRUER: My lord, I think we should have the same information in regard to this as in regard to Canadian Cottons, if it was set up in 1915-1916 when the Business Profits Tax was applicable.

THE COMMISSIONER: Had not you better find out first whether any value in having it?

MR. McRUER: Yes.

THE COMMISSIONER: You see, in the Canadian Cottons the evidence appeared such in Montreal that I referred it to the Income Tax Department, but here I don't know, yet at least.

MR. McRUER: I will follow it up, my lord.

THE COMMISSIONER: I think so before going into all this additional accounting.

MR. McRUER: I think it could be gotten from a very simple statement from the Company itself by writing.

THE COMMISSIONER: That is where I assume you would go for it.

as far as it goes? A. Well, at the end of June, 1926, $85,000. 1927, the same amount. 1928, the same amount. 1929 it dropped to $40,000, and 1930 came up to $175,000. In 1931 it came up to $200,000 and then it was wiped out and then 1932 it started up with $100,000. 1934 $130,000. 1935 $260,000, and May, 1936, $300,000.

Q. Well, then you have not any information as to when it was set up? A. Set in this Company.

Q. And must has been taken prior to 1929?

A. No.

MR. MONROE: My Lord, I think we should have the same information in regard to this as in regard to Canadian Bottoms, if it was set up in 1913-1918 when the Dominion Textile [illegible].

THE COMMISSIONER: Had not you better find out first whether any value in having it?

MR. MONROE: Yes.

THE COMMISSIONER: You see, in the Canadian Bottoms the evidence appeared such in Montreal that I referred it to the Income Tax Department, but here I don't know, yet at least.

MR. MONROE: I will follow it up, my lord.

THE COMMISSIONER: I think so before going into all this additional accounting.

R. MONROE: I think it could be gotten from a very simple statement from the Company itself by writing.

MR. McRUER: Q. Have you observed in looking at the statements, Mr. Howson, whether there has been any sharp fluctuations in the amounts of the Inventory shown? A. I have the figures right before me, in the returns for the past 10 or 11 years.

Q. Give me amount shown for Inventory and the amount for Sales in each of those years that we can rather get a bit of a picture? A. In 1926 the sales for the year amounted to $4,215,907, and inventory was $575,840. In 1927 the sales amounted to $4,688,251, and the inventory $914,428. In 1928 the sales amounted to $4,314,086. and the inventory $2,287,959.

Q. Just a moment, as between those two years or the two previous years the sales have run $4,000,000 odd? A. Yes.

Q. All three years they ran $4,000,000 odd? A. Yes, $4,200,000, $4,600,000 and $4,800,000.

Q. The inventory fluctuated from $500,000 odd to $2,200,000? A. Yes.

Q. Give us the next year? A. 1929 $4,994,729.87. and the inventory $2,073,493.06. In 1930 $4,429,091.09. Inventory $2,072,095.64. In 1931, $4,435,057.52 The inventory $2,109,433.80. In 1932, $4,182,719.60, and the inventory dropped to $1,185,179.56. In 1933, $3,914,546.02. The inventory dropped to $924,208.37. In 1934 the sales were $4,991,593.25 and the inventory rose to $1,434,082.34. In 1935 the sales were $5,240,486.80, and the inventory

MR. MOUNTER: Q. Have you observed in looking at the statements, Mr. Howson, whether there has been any sharp fluctuations in the amounts of the inventory shown? A. I have the figures right before me, in the returns for the past 10 or 11 years.

Q. Give me amount shown for Inventory and the amount for Sales in each of those years that we can rather get a bit of a picture? A. In 1880 the sales for the year amounted to $4,218,807, and inventory was $575,840. In 1887 the sales amounted to $4,688,28[illegible], and the inventory $914,488. In 1888 the sales amounted to $4,314,088, and the inventory $2,287,988.

Q. Just a moment, as between those two years or the two previous years the sales have run $4,000,000 odd? A. Yes.

Q. All three years they ran $4,000,000 odd?

A. Yes, $4,200,000, $4,500,000 and $4,800,000.

Q. The inventory fluctuated from $500,000 odd to $2,200,000? A. Yes.

Q. Give us the next year? A. 1889 $4,[illegible],728,8[illegible], and the inventory $2,[illegible],4[illegible].[illegible]. In 1890 $4,[illegible],[illegible],[illegible]. Inventory $[illegible]. In 1891, $4,[illegible],[illegible]. The inventory $[illegible],[illegible],[illegible]. The inventory $2,109,438.80. In 1892, $4,128,718.80, and the inventory dropped to $1,[illegible],[illegible]. In 1893, $3,914,548.08. The inventory dropped to $924,208.87. In 1894 the sales were $4,[illegible],[illegible].85 and the inventory rose to $1,434,088.04. In 1895

$1,318,207.52. For the ten months sales in 1936, $4,787,938.85, and the inventory $1,323,911.34.

Q. Now, I asked you in chief for a statement in regard to the dividends paid to the stock holders and you said you were having one compiled. That is ready now? A. Yes.

MR. McRUER: This is a memo of dividends paid to the shareholders of the Nabasso Cotton Company from 1907 down to 1932.

THE COMMISSIONER: Any preferred stock?

MR. Mcruer: No, my lord.

Q. There was not a dividend paid in 1932? A. No, 1929, I believe.

MR. McRUER: 1929 was the last.

EXHIBIT 930: Memorandum re dividends etc. to Stockholders Nabasso Cotton Company Limited.

MR. McRUER: Q. Just let us understand this; July, 1907, $500,000 was issued you show for cash $13,000, for intangibles, $487,000. Then what is the next line? A. That is in June, 1912, $1,250,000 shares issued in connection with the St. Maurice.

Q. And for cash $125,000, for intangibles $1,125,000. That shows the capital stock issued. The right hand portion shows the "Dividends, bonuses and Interest on Stock Payments."? A. Yes.

Q. Now, in 1918 there was---

THE COMMISSIONER: Well, is that the first year that

dividends were paid?

MR. McRUER: Yes, I think so.

THE WITNESS: Yes.

MR. McRUER: Q. There was a total dividend of $43,750 - you apportion that between stock issued for cash and stock issued for intangibles? A. Yes, sir.

Q. Now, I am interested particularly in the stock issued for intangibles. On that classification of stock $40,300 was paid in dividends? A. Yes, sir.

Q. In 1919? A. $92,690.00.

Q. In 1920? A. $128,960.00.

Q. In 1921? A. $128,960.00.

THE COMMISSIONER: The same figure every year down to 1926.

MR. McRUER: The same figure every year down to 1927 when it was increased to $131,884.64.

THE COMMISSIONER: Just one thing there, there was nothing paid at all in 1926 according to ---

MR. McRUER: Yes, my lord, $140,000, the same figure $128,960.

THE COMMISSIONER: In 1926?

MR. McRUER: Yes. Your lordship is looking at the wrong line.

Q. What is this interest shown on here? A. The shareholders were given time to pay their subscriptions.

Q. For new stock issued? A. For new stock and they paid interest on it up to the next dividend date, I think it was.

MR. MONROE: Yes, I think so.

THE WITNESS: Yes.

$40,750 - You apportion that between stock issued for cash and stock issued for interest? A. Yes, sir.

Q. Now, I am interested particularly in the stock issued for interest. On that classification of stock $40,300 was paid in dividends? A. Yes, sir.

Q. In 1913? A. $36,080.00.

Q. In 1914? A. $159,980.00.

Q. In 1915? A. $158,980.00.

down to 1916.

MR. MONROE: The same figure every year down to 1916 when it was increased to $191,980.00.

THE COMMISSIONER: Just one thing there, there was nothing paid at all in 1916 according to ---

MR. MONROE: Yes, my lord, $140,000, the same figure $158,980.

THE COMMISSIONER: In 1916?

MR. MONROE: Yes. Your lordship is looking at the wrong line.

Q. What is this interest shown on here? A. The shareholders were given time to pay their subscription and they paid interest on it up to the next dividend

Q. For new stock issued? A. For new stock

Q. Well then, in 1927 there was a stock issue of $602,888. for cash? A. Yes.

Q. In 1928 a further stock issue? A. $1,346,146.35

Q. And in 1929 a further stock issue?

A. $493,095.65.

Q. That was all issued for cash? A. Yes,sir.

Q. In the meantime they paid a dividend the latter part of 1927, in 1928 but none in 1929 or thereafter, is that correct? A. 1929 I think this is the last dividend.

Q. Yes, last dividend, $20,187.83 on the stock issued for intangibles. So the total dividends paid on the stock that was issued for intangibles or as a bonus stock over the period was $1,302,177.35? A. That is the proportion.

MR. McRUER: Before we close the Wabasso matter Mr. Whitehead has sent us four photographs of new building that has been erected since we were at Three Rivers for the purpose of accommodating the Employees with a room in which to have their meals, and also a photograph showing the system of recording the time of the employees. It is a clock with a record. He has asked that we file them.

EXHIBIT 931: Four photographs of buildings and Recording clock of Wabasso Cotton.

MR. McRUER: We might attach Mr. Lajoie's letter to the Exhibit. The letter is dated 28th July, 1936 from Mr. Lajoie to Mr. Beauregard.

Recording clock of Tobacco Cotton.

CROSS-EXAMINATION BY MR. KELLOCK

Q. Just a question - is it your view that under no circumstances it is proper for a company to have an Inventory reserve? A. I told you this morning from a financial standpoint it is a good thing to have reserves against all contingencies.

Q. Well, could not you just answer my question and not limit it. I am asking you whether or not in your view it is proper for a company to have an inventory reserve? A. Yes, it is proper for the Company to set aside part of its profits for that sort of reserve or any other reserve.

Q. And you cover what I was also going to ask you: It is proper for the Company to make transfers out of its profits from year to year? A. That is what the reserve is for.

Q. I am just asking you whether you say it is proper or not? A. Yes.

MR. McRUER: There is no impropriety in having any reserves that any company desire to set up as long as they disclose it fairly to the shareholders and proper authorities.

MR. KELLOCK: Q. And the books of this Company disclosed all reserves completely? A. The books of this Company, the accounts show this reserve.

MR. McRUER: Q. Did the financial statements that are published to the shareholders disclose them? A. Not in the years in which we covered.

A. Yes, sir.

Q. Just a question - is it your view that under
circumstances it is proper for a company to have an
inventory reserve? A. I told you this morning
from a financial standpoint it is a good thing to have
reserves against all contingencies.

Q. Well, could not you just answer my question
not limit it. I am asking you whether or not in your
view it is proper for a company to have an inventory
reserve? A. Yes, it is proper for the Company
to set aside part of its profits for that sort of reserve
or any other reserve.

Q. And you owner what I was also going to ask you;
It is proper for the Company to make transfers out of
its profits from year to year? A. That is what
the reserve is for.

Q. I am just asking you whether you say it is pro
or not? A. Yes.

MR. MOFFATT: There is no impropriety in having an
they disclose it fairly to the shareholders and proper
authorities.

MR. KELLOCK: Q. And the books of this Company
of this Company, the accounts show this reserve.

MR. MOFFATT: Q. Did the financial statements that
are published to the shareholders disclose that?

MR. McRUER: Now, before I pass on to the next Company there is one matter ---

THE COMMISSIONER: Do we know whether or not there were any tariff applications - whether statements were made about the condition of this Company?

MR. McRUER: Yes, there are tariff applications. I have the record downstairs. This Company made an application to the Tariff Board that a tariff be put on yarns, 40's or finer.

THE COMMISSIONER: It would be of interest to know which, if any, statement was made as to the Company's standing.

MR. McRUER: Yes, I will have that looked up.

THE COMMISSIONER: And see whether it is a proper statement or improper one.

MR. McRUER: Now, before we pass to the next company, Mr. Howson was cross-examined in reference to the propriety of including among the silk companies the Belding Corticelli Company and Mr. Howson stated that he followed the same classifications as has been followed by the Price Spreads Commission, and I just want to ask him a question or two in reference to it.

Q. Mr. Howson, you have turned up the evidence of the Price Spreads Commission that you referred to, have you not? A. Yes, sir.

Q. And I see at page 2719 the names of the companies that were dealt with as silk manufacturers are listed? A. Yes, sir.

ROBT. BRYDIE
Shorthand Reporter
TORONTO - CANADA

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Q. And Major Nash of the firm of Clarkson, Gordon, Dilworth & Nash was the Accountant instructing my friends Mr. Kellock here when he was questioning you, was he not? A. Yes.

Q. And the same Major Nash was the Accountant or one of the Accountants to the Price Spreads Commission and is recorded as having been present and given evidence at the time this evidence was given?

A. Yes, sir.

MR. KELLOCK: You are reading from the proceedings, are you?

MR. McRUER: Yes. And it was part of his duty to compile the reports for the Commission and these classifications that took place? A. They did.

Q. And I notice that Mr. Nash at page 2718, there is a question by the Chairman: "Mr. Glassco....." And I believe Mr. Glassco is at present instructing Mr. Kellock.

MR. KELLOCK: He has not said very much so far.

MR. McRUER: Well, he is sitting very close now.

Q. Mr. Glassco is a partner of Mr. Nash, is not he?

A. I believe so.

"BY THE CHAIRMAN:

Q. Mr. Glassco, in preparing that information as suggested by Major Nash, confining it to about ten mills, would you select them as representative of different provinces? A. Yes.

Q. And also the highest and the lowest? A. Yes.

ROBT. BRYDIE
CHARTERED STENOGRAPHER
TORONTO - CANADA

1. And Major Mead of the firm of C. Thomas, Dawson,
Dilworth & Mead was the Accountant instructed by
Plaintiff. Further steps were then taken,
5 as to be read [illegible] to Yes.
4. And the same Major Mead was subsequently or
one of the Accountants to the trial operate Commissioner
who is presently in Sydney [illegible] if I was
evidence at the time this evidence was given?
10 A. Yes, Sir.
MR. GRIGOR: You are really [illegible]
are you?
MR. MORDEN: Yes. And it was part of his duty
to compile the reports for the Commission and those
15 Associations that [illegible]
Q. And I notice that Mr. Mead at page 3918, there
is a question by the Chairman: "Mr. Gibbons....."
And I believe Mr. Gibbons is at present instructing
Mr. Kellock.
20
MR. MORDEN: Well, he is within very close ear-
A. Mr. Gibbons is a partner of Mr. Mead, is he?
A. I believe so.
"BY THE CHAIRMAN:
25
[illegible] Major Mead, confining it to your
[illegible] exactly the extent of his responsibility
30

"Q. So that it will be a fair average?

A. Yes, we will try and select them in that way.

MR. NASH: A cross section."

And then some questions are asked by Mr. Factor, and the witness I believe is Mr.Glassco:

"THE WITNESS: I will first give the names of the manufacturers and the code numbers. They areas follows: "

And the names of the manufacturers that are recorded are:

"Albert Godde Bedin Limited, St. Johns Quebec,

Associated Textiles of Canada Limited, Louiseville, Que.

Belding-Corticelli Ltd. Montreal, Que., Coaticook, Que.

M.E. Binz, Co. Limited, Montmagny, Que.

British American Silk Mills Ltd. Granby, Que.

Bruck Silk Mills Limited, Cowansville, Que.

Consolidated Silk Mills Ltd., St. Hyacinthe, Que.

The B. Edmond Davis Silk Mills of Canada Ltd. Hawkesbury, Ont.

Dominion Silk Mills Limited, Toronto, Ontario,

Grout's Limited, St. Catharines, Ont.

L. & L. Textiles Limited, Toronto, Ontario.

Riverside Silk Mills Limited, Galt, Ontario.

Louis Rossel and Co. Ltd. Drummondville, Que.

Royal Silk Mills of Canada Inc. Montreal, Que.

Slingsby Silk Litd. Brantford, Ontario.

For wages only-

Canadian T.S.R. of Lyons, Ltd. Cap de la Madeleine, Quebec."

ROBT. BRYDIE

TORONTO

"Q. So that it will be a fair average?

A. Yes, we will try and select them in that way.

MR. MACM: A cross section."

And then some questions are asked by Mr. Hector, and the witness I believe is Mr. Glassco:

"THE CHAIRMAN: I will first give the names of the manufacturers and the case briefly. They are as follows: "

And the names of the manufacturers that are recorded are:

"Albert Goode Textile Limited, Co. Toronto Ontario,

Associated Textiles of Canada Limited, Louiseville Que.

M.E. Dixie, Co. Limited, Montmagny, Que.

The D. Edmond Doyle Silk Mills of Canada Ltd.

L. & L. Textiles Limited, Toronto, Ontario.

Louis Rossel and Co. Ltd., Drummondville, Que.

"Then of the companies whose returns were not tabulated, the Valleyfield Silk Mills Limited (in operation for less than one year, has the code number 3401. It is a subsidiary of Crout's Limited.

MR. BOMMERVILLE: Now proceed with the report.

THE WITNESS: It is as follows:"

And it starts off "Silk Manufacturers".

MR. KELLOCK: May I borrow that, please

MR. McRUER: Well now, we will proceed with the affairs of the Dominion Textile Company. I wish to put in, my lord, at the moment a statement that shows the price of raw cotton from 1910 to 1935.

THE COMMISSIONER: What is it?

MR. McRUER: This is a Senate document No. 126 of the Senate of the United States and the table is at page 65.

EXHIBIT 932: Senate document No. 126, of the Senate of the U.S. page 65.

MR. McRUER: This table, my lord, shows the lowest annual average of cotton to be 7.37 cents in the year 1932 - 1933. No, the year 1931 - 1932, 6.34.

THE COMMISSIONER: Does it give the dates of these prices?

MR. McRUER: Yes, my lord. That is the average, lowest annual average for that year.

THE COMMISSIONER: The lowest annual average?

MR. McRUER: Yes, my lord, 1931, - 1932, 6.34 cents a pound. There are only three times in the 25 years

"Them of the companies whose returns were not
tabulated, the Valleyfield Silk Mills Limited
(in operation for less than one year) has the code
number 3402. It is a subsidiary of Grant's Limited
MR. SOMERVILLE: Now proceed with the report.
THE WITNESS: It is as follows:"
And it starts off "Silk Manufacturers".
MR. KNELOCK: May I borrow that, please
with
MR. MONROE: All now, we will proceed the original
of the Dominion Textile Company. I wish to put in,
my Lord, at the moment a statement that shows the
price of raw cotton from 1910 to 1926.
THE COMMISSIONER: What is it?
MR. MONROE: This is a Senate document No. 138
of the Senate of the United States and the table is
at page 85.
EXHIBIT 332: Senate document No. 138,
of the Senate of the U.S.
Page 41.
Year 1926 - 1926.
prices?
MR. MONROE: Yes, my Lord. That is the aver
lowest annual average for that year.
THE COMMISSIONER: The lowest annual average?
MR. MONROE: Yes, my Lord, 1921, - 1922, 9.99

that it reached below 10 cents a pound, only three different years.

THE COMMISSIONER: You mean that the average was lowest?

MR. McRUER: Yes, They were 1914-1915; 1931-1932; 1932-1933.

THE COMMISSIONER: You told me presently that the lowest of all those years was 6.34.

MR. McRUER: That is right, my lord.

MR. BALLANTYNE: What is that year? It is not the calendar year? is it? Does it say that there?

MR. McRUER: The crop year beginning September 1st, that would be from September 1st in the one year to August 1st in the next year and the highest average appears to have been in 1919-1920 when it was 38.29.

Q. Now, Mr. Howson, you have received answers to the questionnaire from the Dominion Textile Company? A. Yes.

MR. McRUER: The answers from the Dominion Textile Company then, my lord, will be the next exhibit.

EXHIBIT 933: Answers to the Questionnaires from the Dominion Textile Company.

MR. McRUER: Q. Now, there are certain subsidiary companies of the Dominion Textile Company which have answered your questionnaire? A. Sherbrooke Cotton Company.

EXHIBIT 934: Answers to the Questionnaire on the Sherbrooke Cotton Company.

Q. What else? A. The Drummondville Cotton Co.

that it remained below 10 cents a pound, only three

different years.

THE COMMISSIONER: You mean that the average

was lowest?

MR. MCTAGGART: Yes, they were 1914-1918; 1921-1925;

1928-1932.

THE COMMISSIONER: You told me presently that t

lowest of all those years was 8.4d.

MR. MCTAGGART: That is right, my Lord.

MR. MACLAREN: What is that year? It is not

calendar year? Is it? Does it say that there?

MR. MCTAGGART: The crop year beginning September 1

that would be from September 1st in the one year to

August 1st in the next year and the highest average

appears to have been in 1919-1920 when it was 26.2d.

Now, Mr. Bowen, you have received answers

to the questionnaire from the Dominion Textile Compa

A. Yes.

MR. MCTAGGART: The answers from the Dominion Textil

Company then, my Lord, will be the next exhibit.

REGISTRAR: Answers to the questionnaire

from the Dominion Textile Company.

MR. MACLAREN: Now, many are textile manufac

companies of the Dominion Textile Company which have

supplied their particulars?

Answers to the questionnaire on

EXHIBIT 935: Answers to questionnaire from the Drummondville Cotton Co.

Q. Then? A. The Sherbrooke Hosiery Company.

EXHIBIT 936: Answers to questionnaire from the Sherbrooke Hosiery Co.

Q. Then? A. The Indugtrial Specialty Company.

EXHIBIT 937: Answers to questionnaire from the Industrial Specialty Co.

THE COMMISSIONER: Where does that Company operate? - Industrial Specialty?

MR. McRUER: I think it is in Montreal. They have a plant there. They make mill supplies of one kind and another.

THE COMMISSIONER: But nobody knows where?

MR. McRUER: I do not think they are outside of Canada.

MR. GEOFFRION: We will try and find out - perhaps our clients know.

MR. McRUER: Now, the next exhibit, my lord, will be the Annual Statement of the Dominion Textile Company from 1906 to 1936.

EXHIBIT 938: Annual statements of the Dominion Textile Company from 1906 to 1936.

MR. McRUER: The next will be the Annual Statements my lord, of the Sherbrooke Cotton Company, Limited, from the 31st of March, 1930 to the 31st of March, 1934. It became merged then with the Dominion Textile Company.

THE WITNESS: Which?

Q. The Sherbrooke Cotton Company? A. Yes.

EXHIBIT 939: Annual statement of Sherbrooke Cotton Company Limited, 1930 to 1934.

EXHIBIT 357: Answers to questionnaire from the Industrial Specialty Co.

Industrial specialty?

MR. MORGAN: I think it is in Montreal. They have a plant there. They make milk supplies of one kind and another.

DR. CAMPBELL: But nobody knows where?

MR. MORGAN: I do not think they are outside of Canada.

our clients know.

MR. MORGAN: Now, the next exhibit, my lord, will be the annual statement of the Dominion Textile Company from 1908 to 1928.

EXHIBIT [illegible]: Dominion Textile Company from 1908 to 1928.

MR. MORGAN: The next will be the Annual Statement

EXHIBIT 358: Answers to questionnaire from the Dominion Textile Co.

EXHIBIT 359: Answers to questionnaire from the Shawinigan Water & Power Co.

EXHIBIT 360: Answers to questionnaire from the Shawinigan Chemicals Ltd.

EXHIBIT 361: Answers to questionnaire from the Shredded Wheat Co.

EXHIBIT 362: Answers to questionnaire from the Shredded Wheat Co.

EXHIBIT 363: Answers to questionnaire from the Drummondville Cotton Co.

EXHIBIT 364: Answers to questionnaire from the Sherbrooke Hosiery Co.

EXHIBIT 365: Answers to questionnaire from the Sherbrooke Hosiery Co.

EXHIBIT 366: Answers to questionnaire from the Dominion Oilcloth & Linoleum Co.

EXHIBIT 367: Answers to questionnaire from the Imperial Tobacco Co.

EXHIBIT 368: Answers to questionnaire from the Imperial Tobacco Co.

EXHIBIT 369: Answers to questionnaire from the Imperial Tobacco Co.

EXHIBIT 370: Answers to questionnaire from the Imperial Tobacco Co.

EXHIBIT

MR. McRUER: Then the next are the annual statements of the Drummondville Cotton Company from March, 1930 down to 1936? A. Yes.

EXHIBOT 940: Annual statement of the Drummondville Cotton Company Limited from 1930 to 1936.

(Page 12605 follows)

.. Now, the next is the annual statements of the Industrial Specialties Manufacturing Company Limited from 1919 to 1935.

THE COMMISSIONER: From 1919 to 1935 ?

MR.McRUER: Yes.

THE COMMISSIONER: 941.

EXHIBIT No. 941: Annual statements of the Industrial Specialties Manufacturing Company Limited from 1919 to 1935.

MR. HEWARD: What company is that ?

MR. GEOFFRION: The Industrial.

MR.McRUER: The next, my lord, is the annual statements of Dominion Cottons Limited. Now, this company was taken over by the Dominion Textile Company but your lordship will remember it was carried on along with it and the premises rented to the Dominion Textile Company.

THE COMMISSIONER: It has no apparate questionnaire ?

MR.McRUER: No, it became absorbed by the Dominion Textile Company later on.

THE COMMISSIONER: What are these, annual statements ?

MR. McRUER: The annual statements from 1921 --

MR. BALLANTYNE: What years ?

MR.McRUER: 1921 to 1927.

MR. BALLANTYNE: May I see them.

MR. GEOFFRION: 1921 to 1927 ?

MR.McRUER: Yes.

THE WITNESS: They come into our general summary of the first year.

. Now, the next is the annual statements of t

from 1919 to 1924.

Mr. Ira.

Yes.

EXHIBIT No. 111: Annual statements of the
Indian Central Railroad Company
Featuring Company Line Between
from 1919 to 1924.

Mr. HOWARD: What company is that?

Mr. [illegible]: The Indian Central.

MR.MCCOOK: The next, my Lord, is the annual
statements of Dominion Cottons Limited. Now, this
company was taken over by the Dominion Textile Compa
but your Lordship will remember it was carried on
along with it and the premises rented to the Dominio
Textile Company.

THE COMMISSIONER: It has no apparate question-
naire ?

MR.HOWARD: No, it became absorbed by the Domi-
nion Textile company later on.

THE COMMISSIONER: What are these, annual state-
ments ?

Mr. MCCOOK: The annual statements from 1921 --

Mr. SOLICITOR-GENERAL: Just a moment !

THE COMMISSIONER: Wait a little.

Mr. MCCOOK: My Lord, I may say --

MR.HOWARD: Yes.

THE COMMISSIONER: Why were they produced ?

MR. McRUER: They have to be taken into consideration in dealing with the ten-year period from 1926 to 1935.

MR. HEWARD: Dominion Cotton Mill Company, is it?

MR.McRUER: Dominion Cottons Limited.

MR. HEWARD: Is that the same one you note here as D.C.M. Company ?

MR.McRUER: Yes.

MR. HEWARD: You called it Dominion Cottons Limited.

EXHIBIT No. 942: Annual statements of Dominion Cottons Limited from 1921 to 1927.

MR. McRUER: The next is the annual statements of the Montmorency Cotton Mills Company for the years--

A. They are all separate companies.

Q. I think you might put these all in one Exhibit.

THE COMMISSIONER: What is it?

MR. McRUER: It is the annual statements for the year 1905 of the Montmorency Cotton Mills, the Colonial Bleaching and Printing Company, the Dominion Cotton Mills Company,Limited, and the Merchants Cotton Company.

THE COMMISSIONER: The Colonial Bleaching ?

MR.McRUER: Yes.

THE COMMISSIONER: What is the next one ?

MR. McRUER: Dominion Cotton Mills Limited.

THE COMMISSIONER: What is the next one ?

MR.McRUER: Merchants Cotton Company.

THE COMMISSIONER: Merchants Cotton Company; you are putting them all in as one ?

MR.McRUER: Yes, in 1905.

EXHIBIT No. 942: Annual statements of
Dominion Overseas Limited
from 1949 to 1957.

THE COMMISSIONER: All for the one year ?

MR.McRUER: Yes, my lord.

THE COMMISSIONER: Exhibit 944 -- no, 943, I am wrong.

EXHIBIT No. 943: Annual Statements for 1905 of Montmorency Cotton Mills, Colonial Bleaching and Printing Company, Dominion Cotton Mills Company, and Merchants Cotton Company.

MR.McRUER: My lord, there are certain letters that have been received by Mr. Howson. I think I should attache them to the questionnaire, Exhibit No. 933, because they rather explain some of the things that are contained in it, and it will be more convenient to have it all in one exhibit. The letters are as follows, a letter from Dominion Textile to Mr. Howson dated the 13th October, 1936; a letter from Dominion Textile to Thorne, Mulholland,Howson & McPherson, dated the 19th of September, 1936.

MR. GEOFFRION: To whom ?

MR. McRUER: Thorne, Mulholland, Mr. Howson's firm; a letter from Dominion Textile to Thorne, Mulholland, Howson & McPherson dated the 3rd of November, 1936, and a letter from Dominion Textile to Mr.Howson dated the 10th of November, 1936. Now, the next exhibit my lord, would be a schedule of the fixed assets of the company from 1905 to --

BY THE COMMISSIONER: Q. Is that the Dominion Textile Company all the way through ? A. Yes, sir.

MR.McRUER: From 1905 to 1936 ?

THE COMMISSIONER: 944.

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THE COURT/REGISTRAR: All for the one year ?

MR. [illegible]: Yes, my Lord.

THE COURT REGISTRAR: Exhibit 944 -- no, 965. I am sorry.

EXHIBIT NO. 965: Annual Statements for 1905 of Dominion Cotton Mills, Colonial Bleaching and Printing Company, and Montmorency Cotton Mills Company.

MR. [illegible]: My Lord, these are SAVAGE Invoices that have been received by Mr. Howson. I think I should attache them to the questionnaire. Exhibit No. 965, because they rather explain some of the things that are contained in it, and it will be more convenient to have it all in one exhibit. The letters are [illegible] Letter from [illegible] Howson dated the 13th October, 1936; a letter from Dominion Textile to Thorne, Mulholland, Howson & McPherson, dated the 14th of September, 1936.

MR. CHANTRELL: To whom ?

MR. [illegible]: Thorne, Mulholland, Mr. [illegible]

[illegible]; a letter from Dominion Textile to Thorne, Mulholland, Howson & McPherson dated the 3rd of November, 1936, and a letter from Dominion Textile to Mr. Howson dated the 10th of November, 1936. Now, the next exhibit, my Lord, would be a statement of the first assets of the company from 1905 to --

BY THE COMMISSIONER: Q. Is that the Dominion Textile Company all the way through ? A. Yes, sir.

MR. McRUER: From 1905 to 1936 ?

EXHIBIT No. 944: Schedule of fixed assets of Dominion Textile Company from 1905 to1936.

MR. HAYTHEN: 944 ?

THE COMMISSIONER: You see there were several put in together as 945.

MR.McRUER: The next is a letter from Mr.Gordon to Mr. Howson dated the 30th of October, 1936, and another letter dated --

THE COMMISSIONER: Just a minute, what is the date of the first one ?

MR.McRUER: The 30th of October, 1936.

THE COMMISSIONER: Are you putting them in together ?

MR.McRUER: Yes, my lord, and another letter dated the 31st October, 1936 with a memorandum attached "Re Method of Inventory Valuation".

THE COMMISSIONER: Re Inventory valuation ?

MR.McRUER: Re Method of Inventory valuation, my lord.

THE COMMISSIONER: That is 945.

EXHIBIT No. 945: Letters dated October 30th, and 31st, 1936 from Mr. Gordon to Mr.Howson with attached memorandum.

BY MR.HAYTHEN: Now, Mr. Howson --

THE COMMISSIONER: Just a minute, those last two letters, you are not putting them with 945 ?

MR.McRUER: No, the ones I am referring to are ones explanatory of the questionnaire. Mr. Ballantyne had just been looking them over. The Dominion Textile Company was incorporated in what year ?

MR. GEOFFRION: The Industrial Specialties is

Magog.

MR. McRUER: Well, we are glad we found out. We will know where to locate it if we need to.

THE WITNESS: It is in 1905, I think.

MR. GEOFFRION: What was the first question, please ?

THE WITNESS: The date of the incorporation of the Dominion Textile.

BY MR.McRUER: Q. Now, the original -- A. No, as a matter of fact the incorporation date was December 9th, 1922.

Q. That is quite right; that is the Dominion Textile Company, Limited, but the earlier company was incorporated in 1905.

THE COMMISSIONER: The same name ?

MR. McRUER: I think they changed a comma in it, didn't they, Mr. Ballantyne ?

MR. BALLANTYNE: I don't think they even changed that much.

BY MR.McRUER: Q. The original capital structure of the Company is set up in 1905 as what ? A. There was preferred stock of $500,200. issued for cash.

Q. Yes ? A. There were 6% bonds, series A,B,C,and D issued to the extent of $2,909,158.33.

MR. GEOFFRION: How much ?

BY THE COMMISSIONER: Q. I missed your first figure; please repeat that ? A. Preferred stock 5,002 shares with a par value of $100. amounting to $500,200. for which the company received cash.

Q. Yes, what is next ? A. 6% bonds, series

MR. MCPHAIL: Well, we are glad we found out. It will know where to look to it if we need to.

THE COMMONS: It is in 1906, I think.

MR. CHAMPION: What was the first question, please ?

THE COMMONS: The date of the incorporation of the Dominion Textile.

BY MR.MCPHAIL: Q. Now, the original --

A. No, as a matter of fact the incorporation date was December 6th, 1902.

Q. That is quite right; that is the Dominion Textile Company, Limited, but the earlier company was

MR.CHAMPION: I think they changed a comma in it, didn't they, Mr. Bullen-type ?

MR. BULLANTYNE: I don't think they even changed that much.

of the Company is set up in 1905 as what ? A. There was preferred stock of $500,000. issued for cash.

Q. Yes ? A. There were 6% bonds, secured A,B,C,and D issued to the extent of $2,900,158.05.

MR. CHAMPION: How much ?

BY THE COMMISSIONER: Q. I missed your first

THE WITNESS: Please repeat that ? A. Preferred stock 5,002 shares with a par value of $100. amounting

A, B, C and D to the amount of $2,909,156.33.

MR. BALLANTYNE: May I interrupt just a minute ? Is this at the very commencement of the company or is this from its first annual report, the first balance sheet ? A. It is from their questionnaire, under date of 1905.

MR.McRUER: February 16th, 1905 is the date they give for the issue of the stock.

MR. BALLANTYNE: Yes, I see.

THE WITNESS: There was at the same time preferred stock issued amounting to --

BY THE COMMISSIONER: Q. More preferred stock ? A. Yes, sir, amounting to --

Q. Just a minute, two issued at the same time ? A. No -- well, yes, at the same date; one was for cash and the other was for consideration.

Q. It is a different consideration ? A. Yes.

Q. How much is it ? A. $1,320,000 --

Q. The shares again at $100.? A. Yes, the shares would be the same par.

Q. How much ? A. $1,320,266.67. $5,000,000. of Common stock, 50,000 shares.

Q. This is the first common stock issued ? A. Yes, sir, 50,000 shares at a par value of $100. each issued for the consideration of $500,000. cash, and the capital stocks of constituent companies as follows: Montmorency Cotton Mills Company --

BY MR.McRUER: Q. You had better just read the reference they have put in their questionnaire. A. "See extract from minutes of meeting of shareholders

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of the Dominion Textile Company Limited held on the 27th of January, 1905, filed with the Commission as Exhibit No. 512." The capital stocks of the constituent companies, Montmorency Cotton Mills Company, 10,000 shares being their total outstanding capital stock --

BY THE COMMISSIONER: Q. How much ? 12,000 ? A. 10,000 shares being the total outstanding capital stock.

Q. 10,000 common shares ? A. They just show 10,000 shares.

MR. GEOFFRION: It was all the stock; it must be common stock.

THE WITNESS: Colonial Bleaching and Printing Company, 3,042 shares being the total outstanding capital stock. Dominion Cotton Mills Company Limited, 25,969 shares out of their total issue of 30,336 shares.

MR. GEOFFRION: 25,000 or 29,000 ? A. 25,969 out of a total issue of 30,336. Merchants Cotton Company 14,399 shares out of their total issue of 15,000 shares. Then, on April 1st, 1905, 6% bonds, series A and B amounting to $149,241.67; preferred stock amounting to $120,193.33.

BY THE COMMISSIONER: Q. Preferred stock? A. $120,193.33 was issued for the balance of the outstanding capital stocks of the Dominion Cotton Mills, 4,367 shares and the Merchants Cotton Company 601 shares. Apparently these bonds and that preferred stock was issued over the period from April 1st, 1905 to December 22nd, 1916 during which period it states

"Stock exchanged during this period for the balance of outstanding Capital Stocks of Constituent Companies".

MR.McRUER: That was when they were picking up the stock of the Merchants and the Dominion Companies apparently.

THE WITNESS: On December 31st, 1906 --

BY THE COMMISSIONER: Q. 1906 ? A. 1906, 6% Bonds, Series D for $47,000.

Q. $47,000.? A. $47,000. was issued, exchanged par for par with underlying bonds of Colonial Bleaching & Printing Company. On March 24th, 1910, 6% Bonds, Series B for $25,000., were exchanged par for par with underlying bonds of Merchants Cotton Company. On December 31st, 1910, 6 % Bonds, Series ? amounting to $137,000, were exchanged par for par with underlying bonds of the Merchants Cotton Company. On February 10, 1917 there was one bond for $100. issued for cash, no explanation. They strike a sub-total at that time showing the total capitalization on March 31st, 1917, bonds outstanding $3,867,500. Preferred stock $1,940,800.

BY THE COMMISSIONER: Q. How much ? A. $1,940,800. Common stock $5,000,000., and the total consideration in cash received $1,900,500. When, the note is "This completes the development of the capital structure of the company to the point conceived by the original incorporators. The company had issued bonds, preferred stock, and common stock, up to the fiscal year ended 31st March, 1917, as shown on this statement, for the underlying bonds amounting to the

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par value of $209,000., cash of $1,000,300. " -- Let us see -- "for the underlying bonds amounting to the par value of $209,000., cash of $1,000,300. and the property and assets of the four constituent companies." Then they added to that --

BY THE COMMISSIONER: Q. To what ? A. To the bond issue.

Q. This is for 1917 ? A. Yes, my lord.

MR.Mc RUER: Yes, my lord. A. No, it is bonds that were not redeemed, that were outstanding, the underlying bonds that had not been redeemed.

Q. Just so I may understand it--

BY THE COMMISSIONER: Q. You have given us in 1917 bonds $3,000,000. and so on, preferred stock, common stock, and then you give the cash for all that, $1,000,300.? A. Yes, and the other consideration which was set out before.

MR.Mc_RUER: The properties.

BY THE COMMISSIONER: Q. You show cash received for all that. What is this that is coming now ? A. This is additional outstanding bond issue --

BY MR.McRUER: Q. They took the properties over subject to this bond issue outstanding ?- A. Yes. "Add Underlying Bonds of Montmorency Cotton Mills Co. Ltd. amounting to $450,000. at 31st March,1905 less redeemed for Sinking Fund $20,000., a total of $430,000." "Add Underlying Bonds of Dominion Cotton Mills Company,Limited brought into the Company's records January, 1917 $3,700,000." Now, on March 31st, 1917, the outstanding capital then is Bonds outstanding

par value of $209,000., each of $1,000,500. -- we
us see -- "for the underlying bonds amounting to
the par value of $209,000., each of $1,000,500. and
the property and assets of the four constituent com-
panies." Then they added to that --

BY THE COMMISSIONER: Q. To what ? A. To
bond issue.

Q. This is for 1917 ? A. Yes, my lord.

MR.McRUER: Yes, my lord. A. No, it is to
that were not redeemed, that were outstanding, the
underlying bonds that had not been redeemed.

Q. Just so I may understand it--

BY THE COMMISSIONER: Q. You have given us
1917 bonds $3,000,000. and so on, preferred stock,
common stock, and then you give the cash for all
that, $1,000,800.? A. Yes, and the other
consideration which was set out before.

MR.McRUER: The properties.

BY THE COMMISSIONER: Q. You show cash receiv
for all that. What is this that is coming now ?
A. This is additional outstanding bond issue --

BY MR.McRUER: Q. They took the properties ov
subject to this bond issue outstanding ?- A. Yes
"And Underlying Bonds of Dominion Cotton Mills
Co. Ltd. amounting to $450,000. at 31st March,1909
less redeemed for Sinking Fund $30,000., a total of
$420,000." "And Underlying Bonds of Dominion Cotton
Mills Company,Limited brought into the Company's re-
corda January, 1917 $3,750,000." Now, or March 31s

$7,397,500. preferred stock $1,940,600. Common stock $5,000,000.

Q. And the next development in the capital history of the company ? A. On February 16th,1918, Montmorency bonds were redeemed for Sinking Fund amounting to $7,500.

Q. February 6th? A. February 6th,1918, and on December 31st, 1918 another $7,500. was redeemed, and on September 1st, 1919 there was a new issue of 6% bonds due in 1949 amounting to $1,500,000. issued in part payment of the Mount Royal Spinning Company. That is the explanation.

Q. That was apparently for the acquisition of the Mount Royal Spinning Company ? A. Yes. In 1920, January 14th, further Montmorency Bonds were redeemed for Sinking Fund amounting to $7,500. In January,1921 Montmorency bonds were paid off in full in cash $407,500. In 1922 Dominion Cotton Mills 6% bonds were redeemed to the extent of $1,149,000., and during that year 6% bonds due 1949 were sold bringing in -- amounting to in all $1,681,500. producing in cash $1,631,055, at a discount of $50,445.

Q. They were sold ? A. Sold to the Underwriters at 97. In 1923 the balance of the Dominion Cotton Mills Company 6% bonds were redeemed amounting to $2,551,000. 6% bonds due 1949 were sold during the year at 97, $518,500. netting the company $308,505.; at 99 3/4, $250,000. netting the company $249,375., and at 100 , $636,000. netting the company that amount of money. Now, the same year 6% bonds due 1949 were exchanged for series B bonds amounting to $546,000.

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That is, new bonds due in 1949 were issued to the extent of $546,000. and the old ones were redeemed.

Q. There is no change in the liabilities . It was just one series replacing the other ? A. Yes. Series B Bonds redeemed by cash , $293,000. Amount set aside to redeem balance of Series B Bonds, $323,000. Bonds exchanged for Series A,C and D $27,500.

Q. I don't quite understand that there. These were exchanged for Series A, C and D; would there not be bonds redeemed of an equivalent amount ? A. There should be.

Q. It does not show on this statement. You might just make a note to follow that up, Mr. Howson, so as to keep our record right ? A. In the same year 25,000 shares of Common stock were sold to the shareholders at par.

Q. That is, from -- up until 1923 then, the stock of the company remained the same as it had been at the incorporation of the company, or after the deal was complete ? A. The stock remained the same from 1905 on.

Q. That is from 1905 on, preferred stock $1,940,600. and common stock $5,000,000.?, A. Yes. In 1923 25,000 shares of the common stock were sold to the shareholders at par netting the company $2,500,000.

Q. So that the common stock holdings at the end of 1923 would be $7,500,000.? A. Right. Then, under date of March 31st, 1923 there is this memorandum

put on the return. "On 9th December, 1922, a new company, Dominion Textile Company Limited (inc.1922) was incorporated for the purpose of purchasing the entire property and assets of Dominion Textile Company Limited (inc. 1905). By agreement between the two companies dated 8th January, 1923, the above mentioned sale and purchase was effected, although, for purposes of convenience, the transaction was to be effective as at the end of the current fiscal year of the vendor company, to wit, 31st March, 1923. The land, buildings, and machinery of the vendor company had been appraised by the Canadian Appraisal Company in 1920, and an amount of $7,500,000. which constituted a part of the difference between the appraised values and the book values of these assets, was added to the book values as at 1st April, 1923. Changes in capitalization resulting from the above mentioned agreements were as fodlows: (a) The new company guaranteed all the outstanding bonds of the old company. (b) The new company issued to preferred shareholders of the old company 19,406 7% Cumulative preferred shares of the par value of $100. each, in exchange for 19,406 preferred non-cumulative shares of the par value of $100. each. (c) The new company issued to common shareholders of the old company 225,000 common shares of no par value in exchange for 75,000. common shares of the par value of $100. each."

Q. Just before we leave that, in regard to the common stock these shares were really split three for one ?

A. Yes.

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out on the return. "On 9th December, 1922, a new company, Dominion Textile Company Limited (inc.1922 was incorporated for the purpose of purchasing the entire property and assets of Dominion Textile Comp Limited (inc. 1905). By agreement between the two companies dated 8th January, 1923, the above mentio sale and purchase was effected, although, for purpo of convenience, the transaction was to be effective as at the end of the current fiscal year of the ver company, to wit, 31st March, 1923. The land, build and machinery of the vendor company had been apprai by the Canadian Appraisal Company in 1920, and an amount of $7,500,000. which constituted a part of t difference between the appraised values and the boo values of these assets, was added to the book valu as at 1st April, 1923. Changes in capitalization resulting from the above mentioned agreements were as follows: (a) The new company guaranteed all the outstanding bonds of the old company. (b) The new company issued to preferred shareholders of the old company 19,406 7% Cumulative preferred shares of the par value of $100. each, in exchange for 19,406 preferred non-cumulative shares of the par value of $100. each. (c) The new company issued to common shareholders of the old company 885,000 common shar of no par value in exchange for 75,000. common shar of the par value of $100. each."

Just before we leave that, in regard to t

Q. At that time ? A. Yes, each shareholder of the old company received three shares in the new company.

Q. The preferred shares in the old company had been cumulative, had they not ? A. No, the old company had been non-cumulative and they received cumulative preferred shares.

Q. Cumulative preferred shares, all right; so that then the net result at the end of this re-organization in 1923 was that there were outstanding in preferred shares how many ? A. 19,406 with a par value of $1,940,600. and 225,000 common shares, with a value set up on the books against it of $15,000,000.

MR.BALLANTYNE: But having no par value ?

MR.McRUER: Having no par value.

THE WITNESS: Having no par value. Then, on June 27th, 1933 --

Q. 1923 ? A. 1923, 6%/49 Bond was sold at par for $500. and cash received by the company. March 31st, 1924, A.C and D Bonds were purchased and cancelled to the amount of $338,250. 6%/49 Bonds were exchanged for Series "B" Bonds during the year out of the amount set aside in 1923, $212,000. On March 31st, 1925 the balance of A, C and D. Bonds were redeemed amounting to $1,767,250. On September 1st, 1928, Bonds were redeemed by sinking fund amounting to $60,000. From January 29th, 1929 to March 31st of the same year 45,000 shares of common stock of no par value were sold to the shareholders at $75.per share. It was set up on the books that the amount received was $3,375,000.

and the note is "These shares issued to finance the acquisition of Janckes Canadian Co. and Canadian Connecticut Co. Limited."

BY THE COMMISSIONER: Q. What do they call them? A. Janckes Canadian Company and the Canadian Connecticut Company Limited.

BY MR.McRUER: Q. That is really the plant at Sherbrooke ? A. Yes. On September 1st,1929 further bonds were redeemed for the sinking fund amounting to $63,000. On September 1st, 1930, another $67,000. On September 1st, 1931, another $70,000. On September 1st, 1932, $75,000. On September 1st, 1933 $79,000. On September 1st, 1934, $83,000. On March 1st, 1935, the balance of bonds was redeemed at 105, the par value of the bonds amounting to $4,675,000. Now, on the same date new bonds, 4 1/2%, due 1955 were sold to the Underwriters at 97 3/4, a par value of $4,500,000. which realized $4,398,750., a discount of $101,250..

Q. Yes ? A. The note is "New Bonds 4 1/2% due 1955 issued to refund old bonds, 6%, due 1949, called at 105 and accrued interest. " On September 1st, 1935 bonds were redeemed to the extent of $43,000. for the sinking fund. On March 31st, 1936, the outstanding capital stands as follows: Bonds outstanding $4,457,000. Preferred stock $1,940,600.

BY THE COMMISSIONER: Q. How much ? A. $1,940,600. Common stock $18,375,000.

MR. BALLANTYNE: 18 million ?

THE WITNESS: $18,375,000.

and the note is "These shares issued to finance the acquisition of Jamaica Canadian Co. and Canadian Connecticut Co. Limited."

BY THE COMMISSIONER: 4. What do they call the Jamaica Canadian Company and the Canadian Connecticut Company?

BY MR. MONTGOMERY: . That is really the plant at Sherbrooke ?

A. Yes. On September 1st, 19 further bonds were redeemed for the sinking fund amounting to $58,000. On September 1st, 1930, another $67,000. On September 1st, 1931, another $70,000. On September 1st, 1932, $73,000. On September 1st, 1933 $75,000. On September 1st, 1934, $80,000; On March 1st, 1935, the balance of bonds was redeemed at 105, the par value of the bonds amounting to $4,975,0 Now, on the same date new bonds, 4 1/2%, due 1955 were sold to the Underwriters at 97 3/4, a par value of $4,500,000. which realized $4,398,750., a discount of $101,250.

Q. Yes ?

A. The note is "New Bond 4 1/2% are also issued in exchange, 90, 1949, called at 105 and accrued interest. " On September 1st, 1935 bonds were redeemed to the extent of $45,000. for the sinking fund. On March 31st, 1936, the outstanding capital stands as follows: Bonds out- standing $4,437,000. $1,940,000. $1,440,000. Common stock $18,375,000.

BY MR. MONTGOMERY: 18 million ?

BY MR.McRUER: Q. That is shown on the balance sheet ? A. The questionnaire.

Q. That brings it down to the end of the last fiscal year ? A. Yes.

Q. That is as shown on the balance sheet ? A. As shown on the balance sheet at the end of the last fiscal year.

Q. Well, my lord, I am going to start on another branch.

-- The Commission adjourned for a short recess.

-- On resuming.

BY MR.McRUER: Q. Now, to carry on with the subject of the capital structure of this company.

THE COMMISSIONER: Is that exhibit 917 ?

MR.McRUER: 917, yes, my lord. It would be more convenient if we had your lordship's copy paged.

THE COMMISSIONER: It is all right; Mr. Howson is showing me.

MR.McRUER: I want to deal, my lord, with the memorandum re Capital investment.

THE COMMISSIONER: That is one of these sheets, is it ? - A. The second.

Q. The second is a summary of capital expenditures. Is it one of these long sheets, re capital and earnings ?

MR. McRUER: Re Capital Investment.

MR. GEOFFRION: What page does the Dominion Textile start at ?

MR.McRUER: It is not paged, Mr. Geoffrion. It is the memorandum re capital investment.

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THE COMMISSIONER: About half way through.

BY MR. McRUER: Q. There is one matter I want to take up. This is a statement, of course, covering the ten-year period or eleven years ? A. Eleven years.

Q. Eleven years, all right ? A .As far as Capital Investment is concerned.

Q. Yes; starting in the year 1926 you have under "Capital employed in manufacturing operations, per books, $26,411,768.38." A. Yes, sir.

Q. Then, "Less inflation in book values, of fixed assets, $12,000,000." That item is carried all the way across the page ? A. Yes.

Q. What is that item , Mr. Howson? A. It represents the difference between the $5,000,000. --

BY THE COMMISSIONER: Q. What do you say, what $5,000,000.? A. The $5,000,000. of common stock issued at the inception of the company and the cash paid for it $500,000., $4,500,000.

Q. You mean the $500,000. which represented cash? A. Yes, and the $7,500,000. which was the write-up at the time of the re-incorporation of the company.

Q. Just a moment, the first $4,500,000. was in the common stock , was it ? A. Yes sir, and the $7,500,000. was also in common stock and it is represented by the write-up of the assets on the basis of an appraisal.

Q. About 1922 ? A. 1922, yes sir.

BY MR.McRUER: Q. Now, it is the latter item that I want to get clear, Mr. Howson. We have had some

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consideration evidence in reference to the issue of $3,000,000. of stock at the inception of the company for which $500,000. was paid, and we are quite familiar with that story, but I want to get the story in reference to the $7,500,000. write-up quite clear. When did that occur ? A. It occurred according to this on March 31st, 1923.

Q. March 31st, 1923 ? A. The agreement between the two companies was dated the 8th of January, 1923 and the adjustments were made as of March 31st, 1923.

Q. That was the date on which the new company of the same name was incorporated ? A. Yes.

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MR. McRUER: Now we come back to the balance sheet contained in the annual report for March 31, 1922, which is contained in Exhibit 938. We have on the statement of assets, land, bukl ding and machinery, $15,497,654.48, and there are other items of inventory, and so on, that we are not going to get involved with at the moment.

THE COMMISSIONER: You are not putting the amount of them in?

MR. McRUER: No, they do not come into this question that we are discussing at the moment. In the balance sheet of March 31, 1923 --

THE COMMISSIONER: That was the next year?

MR. McRUER: Yes, my lord, land building and machinery is shown at $13,003,120.43.

THE COMMISSIONER: There is a reduction there of over $2,494,000 in the valuation.

THE WITNESS: Yes, sir.

MR. McRUER: That would be, I take it, in depreciation written off.

THE WITNESS: It would be partly depreciation.

BY MR. McRUER: Q. Is there any indication of any sale of plant? A. The amounts written off certain buildings and land were $503,173.38.

BY THE COMMISSIONER: Q. For buildings and land, not machinery? A. It is just marked buildings and land. You are dealing now with what, Mr. McRuer?

MR. MCRUER: Now to come back to the balance sheet contained in the annual report for March 31, 1952, which is contained in Exhibit 938. We have on the statement of assets, land, buildings and machinery, $15,497,654.48, and there are other items of inventory, and so on, that we are not going to get involved with at the moment.

THE COMMISSIONER: You are not putting the amount of them in?

MR. McRUER: No, they do not come into this question that we are discussing at the moment.

In the balance sheet of March 31, 1952 --

THE COMMISSIONER: What was the next year?

MR. McRUER: Yes, my lord, land building and machinery is shown at $18,008,180.48.

THE COMMISSIONER: There is a reduction there of over $2,494,000 in the valuation.

THE WITNESS: Yes, sir.

MR. McRUER: That would be, I take it, in

THE WITNESS: It would be partly depreciation.

BY MR. McRUER: Q. Is there any indication of any scale of plant? A. The amounts written off certain buildings and land were

BY THE COMMISSIONER: Q. For buildings and machinery? A. It is just mentioned

MR. McRUER: The difference between 31st March, 1922, and 31st March, 1923.

THE WITNESS: The depreciation in 1923 was $741,950.

BY THE COMMISSIONER: Q. For land and machinery? You just now gave us the figure of $508,000. A. That was in 1921.

Q. That was the wrong amount? A. The depreciation in 1923 on buildings and machinery amounted to $741,950. It is a little difficult to tell from this because they have two transactions. Then the write-up followed in the same year. Outside of the depreciation I cannot explain from that statement the difference between the $15,000,000 and the $13,000,000.

THE COMMISSIONER: There is a reduction in value.

MR. McRUER: I notice that in the annual statement they do not give us any information as to the amount that is written off out of profits for depreciation. I cannot find that in their profit and loss statement for the year ending March 31, 1923, nor do I find it in the profit and loss statement for the year ending March 31, 1922.

THE WITNESS: Is there anything in the report?

MR. McRUER: No, this report seems to be abundant in lack of information. Then we come to the next step at any rate. In the balance sheet of March 31, 1923, the plant, buildings and machinery

MR. McHUTT: The difference between that period 1922, and the March, 1923.

THE WITNESS: The depreciation in 1922 was $741,950.

BY THE CHAIRMAN: Q. For land and machinery? You just now gave us the figure of $500,000. A. That was in 1921.

Q. That was the wrong amount? A. The depreciation in 1922 on buildings and machinery amounted to $741,950. It is a little difficult to tell from this because they have two transactions. Then the write-up followed in the same year. Outside of the depreciation I cannot explain from that statement the difference between the $15,000,000 and the $18,000,000.

THE CHAIRMAN: There is a reduction in value.

MR. McHUTT: I notice that in the annual statement they do not give us any information as to the amount that is written off out of profits for depreciation. I cannot find that in their profit and loss statement for the year ending March 31, 1923, nor do I find it in the profit and loss statement for the year ending March 31, 1922.

THE WITNESS: Is there anything in the report?

MR. McHUTT: No, this report seems to be abundant in that information. They promise to let you have it at any rate. In the balance sheet of

are shown with a value of $13,003,120.42.

THE COMMISSIONER: That is almost $2,500,000 less than the year before.

MR. McRUER: Than the previous year, yes, my lord.

THE COMMISSIONER: And all Mr. Howson has found is a depreciation of $741,950.

MR. McRUER: Yes. I might just show Your Lordship the form in which the balance sheet was put.

BY THE COMMISSIONER: Q. Where did that depreciation come from? A. Out of profits.

Q. Out of profits for the year? A. Yes.

MR. McRUER: The form of profit and loss and balance sheet is very sparse of information.

BY MR. McRUER: Q. Now we come to the next year, Mr. Howson, when, under Assets, land building and machinery, less depreciation, are shown at $20,178,023.65, or nearly $7,000,000 more than they were the previous year? A. Yes.

Q. You mentioned the figure of $7,500,000 by which land, buildings and machinery were written up. A. Yes.

Q. How are the two figures reconciled? A. The depreciation for the year 1924 will come into that.

BY THE COMMISSIONER: Q. Oh, you have not the whole story yet. A. As between those two figures you will have to take into account the $7,500,000 and the depreciation written off in the year 1924, which amounted to $763,000.

BY MR. McRUER: Q. Then on the $13,003,120.42 shown at the end of the year 1923 there would be depreciation deducted before the plant was written up? A. No, no. This was after the plant was written up, immediately after March 31, 1923.

Q. Oh, I see. That is when this figure of $20,000,000 came in. A. Yes. This is at the end of the year, March 31, 1924, the $7,500,000.

BY THE COMMISSIONER: Q. You will find it there then. In the statement for the year ended March 31, 1924, you have land, buildings and machinery put in at $20,000,000? A. Yes.

Q. That is on account of an appraisal that took place after the new company took over the old company A. No, the appraisal took place in 1920, and in 1920 the appraisal amounted to $22,918,033.00. They add to it for the three years ended March 31, 1923, $1,032,519, making a total of $24,050,552, from which they deducted depreciation written off for the three years ended March 31, 1923, $2,022,281, making a total of $22,028,271. The ledger value at March 31, 1923, was $13,003,120, which left an increase in the value of $9,025,151. They used $7,500,000 of that write-up only. In other words instead of writing the plant up to the full amount of the appraisal they only write it up to the extent of $7,500,000.

BY MR. McRUER: Q. Let us see how the figure of $13,003,000 odd would be arrived at on March 31, 1923. That would start back in 1905 would it not? A. Yes.

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BY MR. McHUGH: Q. Then on the $13,003,120.48 shown at the end of the year 1925 there would be de-

A. No, no. This was after the plant was written up

Q. Oh, I see. That is when this figure of

A. Yes. This is

the end of the year, March 31, 1924, the $7,500,000

BY THE CHAIRMAN: Q. You will find it there then. In the statement for the year ended March 31, 1924, you have land, buildings and machin

A. Yes.

Q. That is on account of an appraisal that took place after the new company took over the old compa

A. No, the appraisal took place in 1920, and in 1 the appraisal amounted to $22,918,083.00. They add to it for the three years ended March 31, 1923, $1,082,319, making a total of $24,050,352. From wh they deducted depreciation written off for the thre years ended March 31, 1922, $2,082,281, making a total of $22,088,271. The ledger value at March 3 1922, was $13,003,180, which left an increase in t value of $9,085,181. They used $7,500,000 of that write-up only. In other words instead of writing plant up to the full amount of the appraisal they write it up to the extent of $7,500,000.

BY M. McHUGH: Q. Let us see how the figur

That would start back in 1905 would it not? A. Y

Q. Have we got the first annual report for 1905, Mr. Rene ?

ASSISTANT SECRETARY RENE: For 1906.

MR. BALLANTYNE: 1906 is the first report.

MR. McRUER: The first annual report that we have in Exhibit 938 shows land, buildings and machinery, shares of other companies and good will at $10,027,233.51.

THE COMMISSIONER: What year is that?

MR. McRUER: March 31, 1906. There seems to be some element of good will that is written in there.

BY MR. McRUER: Q. Do you know, Mr. Howson, whether there was anything written off for good will later on? A. The good will is represented by $4,500,000. You see at this time, as I understand it, the company was not able to get possession of the physical assets of these companies which had been taken over. I think that is shown in the evidence.

BY THE COMMISSIONER: Q. You say, at this time? A. In 1905, and for some time they carried the good will account in their books at $4,500,000, I think it was, or $4,900,000, and the assets of Dominion Cotton Mills were not put on the books until all the shares were ultimately acquired. Then it was merged in the books in 1927, I think it was. So that the accounts of the company do not represent just one account or a series of accounts for land, buildings and machinery.

BY MR. GEOFFRION: Q. You said 1927. Was it not 1917 when they finally acquired the shares?

A. The operations were carried on separately until 1927. They may have acquired all the shares prior to that time.

BY MR. McRUER: Q. Have the company given you any statement that would show the depreciation that was taken from year to year on the land and buildings from 1905 till 1923? A. Exhibit 944 contains a statement in which that appears, also in the questionnaire — Form No.16, in reference to buildings, machinery and equipment, additions and repairs, with depreciation reserves, shows that information.

Q. Is that summarized in your summary? A. Yes.

Q. Where can we get that figure? A. In the summary of capital expenditures, 1905 to 1936. It is the second small sheet.

Q. Oh yes, but that does not give me the point when this write-up took place. That is what I am after. You see the plant had risen from $10,000,000 in 1905 to $15,000,000 in 1922, for instance, but of course they were acquiring new properties. I am not suggesting anything improper in connection with that, but I want to know how much they had written off for depreciation in the meantime. A. I have not got that figure.

MR. McRUER: Mr. Davidson will please make a note and make that up for us, the annual depreciation written off from 1905 to 1923.

BY MR. McRUER: Q. Then in 1923 the plant and buildings are written up by $7,500,000. What is the

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A. The operations were carried on separately unt
1927. They may have acquired all the shares prior
to that time.

BY MR. McMURTRY: Q. Have the company given
any statement that would show the depreciation the
was being [illegible] on the land and buildi
from 1905 till 1922? A. Exhibit 344 sho-
ting a statement in which [illegible]
machinery and equipment, additions and repairs, wit
[illegible] — Item No.14, [illegible]
Q. Is that summarized in your summary? A. Y
Q. Where can we get that figure? A. In
the summary of capital expenditures, 1905 to 1926.
It is the second small sheet.
Q. Oh yes, but that does not give me the
point when this write-up took place. That is what I
am after. You see the plant had risen from $10,000,
to [illegible] $1,000,000 in 1907. Of course,
of course they were acquiring new properties. I am
not suggesting anything improper in connection with
that, but I want to know how much they had written o
[illegible] in the meantime. A. I have not got
that figure.

MR. McMURTRY: Mr. Howson will please make a
note and make that up for us, the annual depreciation
written off from 1905 to 1922.

BY MR. McMURTRY: Q. Then in 1907 and
[illegible] are written off [illegible]

next step in regard to that? A. The capital stock was issued on the basis of the write-up of the assets. The capital stock outstanding before the reorganization, and common stock was $7,500,000, and after the reorganization the shares were split three for one, from 75,000 to 225,000 shares, and the book value from $7,500,000 to $15,000,000.

BY THE COMMISSIONER: Q. The increase was not proportionate in both cases? A. No, the shares were split three for one, and the value was doubled. The new shares had no par value. The value of the common stock was $7,500,000. In the old company the outstanding value was $7,000,000.

THE COMMISSIONER: Those were shares of 100 par value.

BY MR. BALLANTYNE: Q. What was the second figure, the new shares, 225,000, was it, with a book value of $15,000,000 ? A. Yes.

BY MR. GEOFFRION: Q. The book value is based on the $7,500,000 write-up.

BY MR. McRUER: Q. So that we may get it clear, there was an original issue of $5,000,000 in common stock? A. Yes.

Q. Then that was increased in 1922 or early in 1923 by the sale of $2,500,000 of common stock? A. Another 25,000 shares at par.

Q. Another 25,000 shares at par? A. Which made $2,500,000.

Q. And the capital then stood at $7,500,000. A. Yes, 75,000 shares of $100 par value.

stock was issued on the basis of the write-up of t
assets. The capital stock outstanding before the
reorganization, had amounted then to $7,800,000.
and after the reorganization the shares were
split three for one, from 75,000 to 225,000 shares
and the book value from $7,500,000 to $15,000,000.
BY THE CHAIRMAN: Q. The increase was
not proportionate in both cases? A. No, the
shares were split three for one, and the value was
doubled. The new shares had no par value. The
value of the shares was $7,500,000. In the
old company the outstanding value was $7,000,000.
THE COMMISSIONER: Those were shares of 100
par value.
BY MR. BILLINGSLEY: Q. What was the second
figure, the new shares, 225,000, was it, with a
book value of $15,000,000 ? A. Yes.
BY Mr. GEOFFRION: Q. The book value is based
on the $7,500,000 write-up.
BY Mr. [illegible]: Q. So that we may get it
clear, there was an original issue of $5,000,000 in
[illegible] A. Yes.
Q. Then that was increased in 1922 or early
in 1923 by the sale of $2,500,000 of common stock?
A. [illegible]
Q. [illegible]
made $2,500,000.
Q. And the capital then stood at $7,500,000.

Q. Yes. Then they appraised the plant, wrote it up by $7,500,000? A. Yes.

Q. And issued stock, no par stock?

A. Three shares of no par stock for each share of $100 par value.

BY THE COMMISSIONER: Q. And gave it a value of $15,000,000? A. Yes, sir.

BY MR. McRUER: Q. So that at the time that was done, $12,000,000 of that value had consisted of the increase by the appraisal, and the difference between the $500,000 for the common stock and the $5,000,000 of shares. A. The $12,000,000 was represented by the difference between $5,000,000 and the cash received for the initial issue of $4,500,000, and for the stock that was issued on the basis of the write-up, $7,500,000.

Q. $4,500,000 plus $7,500,000, making $12,000,000 ? A. Yes.

Q. And in your memorandum on capital investment contained in Exhibit 917, you have deducted that all the way across the page for the purpose of determining the capital employed in manufacturing operations? A. Yes.

BY THE COMMISSIONER: Q. That is what you call the inflation in book values? A. Yes.

BY MR. McRUER: Q. Then we come to the question, how that capital is represented. The first item is bank loans.

BY THE COMMISSIONER: You mean the remaining $14,411,000 in 1926? A. Yes.

THE COMMISSIONER: There were no bank loans in 1926.

MR. McRUER: No bank loans in 1926 or 1927. In 1928 there were bank loans of $1,352,025.54, and by 1936 the bank loans had been reduced to $949,139.65. The bonds outstanding in 1926 were $5,172,000, and in 1936 $4,457,000. From 1930 to 1936 the bonded indebtedness had been reduced from $5,049,000 to $4,457,000. Then we have the preferred stock investment.

THE COMMISSIONER: That is the same right through.

MR. McRUER: It is the same right through, and had been the same right through since 1905.

THE WITNESS: Yes.

MR. McRUER: No change in the preferred stock issue.

BY MR. McRUER: Q. And now we come to the common stock. Common stockholders equity in capital employed in manufacturing operations, in 1926, $7,299,168.38, and equity in investments in subsidiaries and outside investments, $3,671,855.98. By 1936 the common stockholders equity in capital employed in manufacturing operations had declined to $5,948,462.57 and the equity in investments in subsidiaries and outside investments had increased to $7,681,263.84.

THE COMMISSIONER: Is that a proper distribution there, because we see that after deducting the inflation in book values of the fixed assets the adjusted capital employed in manufacturing operations was

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THE COMMISSION R: There were no bank loans in 1926.

MR. McHUGH: No bank loans in 1926 or 1927. In 1928 there were bank loans of $1,852,029.54, and by [illegible] The bonds outstanding in 1926 were $6,175,000. and in 1926 $4,497,000. From 1930 to 1936 the bonded indebtedness had been reduced from $5,049,000 to $4,497,000. Then we have the preferred stock investments.

THE COMMISSIONER: That is the same right through.

MR. McHUGH: It is the same right through, and has been the same right through from 1926.

THE WITNESS: Yes.

MR. McHUGH: No change in the preferred stock issue.

BY MR. McHUGH: 6. And now we come to the [illegible] Common stockholders equity in capital employed in manufacturing operations, in 1926, $7,572,744.39, and equity in investments in subsidiaries and outside investments, $6,071,888.49. By 1936 the common stockholders equity in capital employed in manufacturing operations had declined to $5,368,468.57 and the equity in investments by subsidiaries and outside investments had increased to $7,681,865.84.

THE COMMISSIONER: Is that a proper distribution of the assets after deducting the liabilities in each of the lines of [illegible]

$4,411,000, and that is made up of these two items represented, in the first place, by bank loans, bonds and preferred stock, and secondly, common stock These two together make the $14,411,000. Then when you put in equity in investments in subsidiaries and outside investments, do you not bring in a different element? You see what I mean. You say that adjusted capital employed in manufacturing operations is $14,411,000, represented by such and such, but you reach that figure at the end of the common stock-holders equity. Then you go on to put in another figure, $3,671,000, which is something different. Is that properly put in there under that same heading?

THE WITNESS: The bonds were all issued for the equipment and the physical assets of the company, and the preferred stock was issued for the same purpose.

THE COMMISSIONER: Yes, but how does it work in with your "adjusted capital employed in manufacturing operations," $14,411,000. Then when you break that down, you go on to put in an item of $3,671,000 more.

THE WITNESS: The $26,000,000 is not the total capital of the company. It is that portion of the capital employed in manufacturing operations.

THE COMMISSIONER: That is what I am talking about. You say "adjusted capital employed in manufacturing operations," $14,411,000.

THE WITNESS: Yes.

THE COMMISSIONER: Represented by such and such, and then after having exhausted that figure you add

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$14,411,000, and that is made up of these two items represented, in the first place, by bank loans, bonds and preferred stock, and secondly, common stock. These two together make the $14,411,000. Then when you put in equity in investments in subsidiaries and what have you, do you not bring in a different element? You see what I mean. You say that adjusted capital employed in manufacturing operations is $14,411,000, represented by each and each, but you reason that figure at the end of the common stockholders equity. Then you go on to put in another figure, $2,671,000, which is something different. Is that properly put in there under that same heading?

THE WITNESS: The bonds were all issued for the equipment and the physical assets of the company, and the preferred stock was issued for the same purpose.

THE COMMISSIONER: Yes, but how does it work in [illegible] operations," $14,411,000. Then when your break that down, you go on to put in an item of $2,671,000 more. [illegible] capital of the company. It is that portion of the capital employed in manufacturing operations.

THE COMMISSIONER: That is what I am talking about. You say "adjusted capital employed in manufacturing operations," $14,411,000.

[illegible]

THE COMMISSIONER: Impressed by each and each

another, "equity in investments". Do you mean that to be under a separate heading?

THE WITNESS: Yes, that is additional capital.

THE COMMISSIONER: Is this working capital too?

THE WITNESS: It is working outside the business

THE COMMISSIONER: But you have that item with the others.

THE WITNESS: Yes, I see.

THE COMMISSIONER: You add together the $7,112,000 and the $7,299,000 to make the $14,000,000 odd, but then you have put in another $3,600,000, and made a different picture.

MR. GEOFFRION: There should have been a break there.

THE COMMISSIONER: Yes, there should have been a break there.

MR. McRUER: If the two items above "equity in investments" were bracketed together, it would be clearer. They are the two that go together. Then you would have the total adjusted capital employed in manufacturing operations itemized -- bank loans, bonds, preferred stock, common stockholders equity. I think, Mr. Whiteley, if you would just draw a bracket from "bank loans" down to "manufacturing operations" it would make the Exhibit clearer, so that we would not be misled by it at any time. That is what it is supposed to apply to, is it not, Mr. Howson?

THE WITNESS: Yes.

BY THE COMMISSIONER: Q. These investments in subsidiaries and outside investments are also working? A. Yes.

Q. But they are not working in manufacturing operations? A. No, they are outside.

BY MR. McRUER: Q. From 1926 up to 1932 there seems to have been a steady rise in the amount of capital invested in outside investments and, well not a steady decline, but certainly a decline in the capital invested in operations.

THE COMMISSIONER: Yes, but what year do you put your finger on?

MR. McRUER: 1932. The equity in investments reaches its high point in that year, and I think we shall find a reason why it goes down after that.

THE COMMISSIONER: The capital invested in outside investments in that year was $12,761,000, and the capital employed in manufacturing operations that year was $12,891,000.

MR. McRUER: Yes, my lord.

THE COMMISSIONER: Another trouble with this, the way it is made out, are these two items added together and the total given, common stockholders equity and capital employed in manufacturing operations, $7,000,000 for the first year, and so on.

THE WITNESS: They really represent the common stockholders equity.

THE COMMISSIONER: They work in different ways.

THE WITNESS: In different ways for them.

operations?

A. No, they are outside.

BY MR. HOWARD: Q. From 1950 up to 1952 there seems to have been a steady rise in the amount of capital invested in outside investments, not a lot a steady decline, but certainly a decline in capital invested in operations.

THE CHAIRMAN: Now, put your question.

MR. HOWARD: Yes. The equity in investments reaches its high point in that year, and I think we shall find a reason why it goes down after that.

THE CHAIRMAN: The capital invested in outside investments in that year was $12,741,000, and the capital employed in manufacturing there and the year was $18,891,000.

MR. HOWARD: Yes, my point.

THE CHAIRMAN: Income exceeds sixty odd, that may it is more net, more than ever [illegible] and the total dime. Income statements really not [illegible] $7,000,000 for the first year, and so on.

THE WITNESS: That really represents the income [illegible] equity.

THE CHAIRMAN: That was in different

THE COMMISSIONER: I think they should be re-headed. Then they would be grasped more easily.

THE WITNESS: It is intended to show the distribution of capital in the various classes of securities and what is behing them.

BY MR. McRUER: Q. There seems to have been a drop in the equity in investments in subsidiaries and outside investments between 1932 and 1936, of about $5,000,000. Are you able to give any explanation of that drop, Mr. Howson? A. One explanation is that in 1933, I think it was, they merged the Sherbrooke Cotton Company into the books of the Dominion Textile Company, and brought in all those assets, and that naturally took them out of the investments in subsidiaries.

Q. Would it take them into the upper category? A. It would take them into the upper category.

THE COMMISSIONER: They do not seem to make much impression in the upper category.

BY MR. McRUER: Q. There was a writing off of the losses on investment account, and then there was some transfer to an investment reserve too.

A. The transfer to investment reserve would not affect it because we deal with these as free reserves. There was written off $1,000,000 odd of the book value of investments during that period.

Q. What I am getting at is this. There seems to have been a drop in the shareholders equity between 1931 and 1936 from $16,464,000 to $13,629,000, and I

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...ded. Then they would be grasped more easily.

THE WITNESS: It is intended to show the distribution of capital in the various classes of securities and what is holding them.

BY MR. McHUGH: Q. There seems to have been a drop in the equity in investments in subsidiaries and outside investments between 1932 and 1936, of about $5,000,000. Are you able to give any explanation of that drop, Mr. Howson? A. One explanation is that in 1935, I think it was, they merged the Sherbrooke Cotton Company into the books of the Dominion Textile Company, and brought in all those assets, and that naturally took them out of the investments in subsidiaries.

Q. Would it take them into the upper category?

A. It would take them into the upper category.

THE COMMISSIONER: They do not seem to make much impression in the upper category.

BY MR. McHUGH: Q. There was a writing off of th... transfer to an investment reserve too.

A. The transfer to investment reserve would not affect it because we deal with these as free reserves. There was written off $1,000,000 odd of the book value of investments during that period.

Q. What I am getting at is this. There seems ... been a drop in the shareholders equity betwe... 1931 and 1936 from $16,464,000 to $13,529,000, and I

find that $5,000,000 of that drop comes out of --

A. There was a $5,000,000 drop.

THE COMMISSIONER: A drop from $16,000,000 to $13,000,000 ?

MR. McRUER: Yes, my lord. They drop $5,000,000 on their investment account.

THE COMMISSIONER: Where is that ?

MR. McRUER: The upper figure under 1932, $12,700,000, and it drops in 1936 to $7,681,000, and I am trying to put my finger where the drop took place, and what it means, whether it occurred in making cotton or investing in other enterprises that had nothing whatever to do with the cotton industry, or whether their investment in the cotton industry was profitable and their investments outside at that time were unprofitable.

THE WITNESS: This equity in investments in subsidiaries includes investments in the Drummondville and Sherbrooke Cotton Companies.

BY MR. McRUER: Q. Yes? A. Until 1934, when they merged the Sherbrooke Cotton Company with the Dominion Textile Company.

Q. Yes. Well then the assets of the Sherbrooke Cotton Company would then be shown in the upper category? A. Yes.

THE COMMISSIONER: That is in the working category

MR. McRUER: Yes.

THE COMMISSIONER: That is in capital employed in manufacturing operations?

MR. McRUER: Yes.

THE WITNESS: Bank loans came down from $2,172,000 in 1934 to $1,000,000 about, in 1936.

THE COMMISSIONER: A good deal of it may be there.

MR. McRUER: Yes, and they came down again, but still the total amount employed in manufacturing operations --

THE COMMISSIONER: That was not affected very much but bank loans were very considerably reduced.

MR. McRUER: The total amount employed in manufacturing operations in 1932 was $12,000,000, and in 1936 $13,000,000. So we come up there.

THE COMMISSIONER: Three-quarters of a million.

MR. McRUER: Three-quarters of a million, and in the other place we are going down about $5,000,000.

BY MR. McRUER: Q. Have the company furnished you, Mr. Howson, with a statement of their losses on investment account? A. Yes, I have a statement of that.

Q. You have a complete statement of that. Then you can probably have a look at it overnight and see if we can reconcile something there because I am interested in comparing this company's record during these depression years, their record in their own business as compared with their investments in other companies, which evidently they thought at that time would be good investments.

BY THE COMMISSIONER: Q. You can draw that up for us, Mr. Howson, can't you? A. Yes, sir.

MR. MCHUGH: Yes.

THE WITNESS: Bank loans came down from $2,172,000 in 1934 to $1,000,000 about, in 1936.

THE CHAIRMAN: A good deal of it may be the

MR. MCPHER: Yes, and they came down again, but still the total amount employed in manufacturing operations --

THE CHAIRMAN: That was not affected very

MR. MCHUGH: The total amount employed in manufacturing operations in 1936 $18,000,000. So we come up there.

THE CHAIRMAN: Three-quarters of a million.

MR. MCHUGH: Three-quarters of a million, and

Q. Have the company furnished you, Mr. Howson, with a statement of their losses on investment account?

A. You have a complete statement of that. Then you can probably have a look at it overnight and see if we can reconcile something there because I am

those depression years, their record in their

Q. You can give that up

MR. MCPHER: Don't you? A. Yes, sir.

BY MR. McRUER: Q. Then if we drop down one stage further on the page we come to common stock cash payments, $3,000,000, in 1926, and then it gets up to as high as $6,375,000 in 1936.

THE COMMISSIONER: That has been running since 1929 though.

MR. McRUER: Yes, my lord. That $3,000,000 in 1926 would be the original $500,000 of 1905 and the $2,500,000 of 1923?

THE WITNESS: Yes.

BY MR. McRUER: Q. And then more capital was introduced in 1929, bringing it up to $6,375,000 ? A. Yes, that was capital used for the purpose of Jenckes Canadian Company and the Sherbrooke Cotton Company.

Q. The purchase price of the Sherbrooke Cotton Company was approximately $3,375,000 ? A. I do not think it was that amount. It was over $2,250,000, I think.

Q. The rest would go into working capital of the company? A. There would be $1,000,000 in addition.

Q. Then you deal with free or contingent reserves and these vary from $1,971,000 in 1926 to $2,179,000 in 1936. What is included in this category, free or contingent reserves? A. There is inventory reserve, investment reserve, and the miscellaneous contingent reserve.

Q. Let us have the amounts of these. A. What year?

BY MR. McRUER: Q. Then if we drop down one stage further on the page we come to common stock cash payments, $6,000,000, in 1926, and then it gets up to [illegible].

THE COMMISSIONER: Over the sterling line 1929 though.

MR. McRUER: Yes, my Lord. That $8,000,000 in 1926 would be the original $500,000 of 1905 and the $2,500,000 of 1929?

THE WITNESS: Yes.

BY MR. McRUER: Q. And then more capital was introduced in 1925, bringing it up to $6,875,000 ?

A. Yes, that was capital used for the purpose of Jenkes Canadian Company and the Sherbrooke Cotton Company.

Q. The purchase price of the Sherbrooke Cotton Company was approximately $2,875,000 ? A. I do not think it was that amount. It was over $2,.,50,000, I think.

Q. The rest would go into working capital of the company? A. There would be $1,000,000 in addition.

Q. Then you deal with free or contingent reserves on these very from $1,371,000 in 1926 to $2,179,000 in 1936. What is included in this category, free or contingent reserves? A. There is inventory reserve, investment reserve, and the miscellaneous contingent reserve.

Q. Let us have the amounts of these. A. What

Q. Well, we had better take this year, 1936, which we have in front of us at the moment.

A. There was an inventory reserve of $1,500,000, and contingent reserves amounting to $471,860, made up of a general reserve of $116,552, bad debts reserve $150,000, and miscellaneous reserve $205,308.20. Miscellaneous reserve and the general reserve were ultimately merged into one contingent reserve account. That makes a total of $1,971,860 -- $1,500,000 for inventory, $150,000 for bad debts, $116,552 for general reserve, and $205,308 miscellaneous reserve, but the reserve that was transferred to it had been created prior to that time.

Q. It was set up as an investment reserve in 1931, and how much did it amount to ? A. $600,000.

Q. Was it later amplified? A. Next year it was increased to $1,600,000.

BY THE COMMISSIONER: Q. In what year ? A. In the following year, 1932.

BY MR. McRUER: Q. This investment reserve was created by transfer from some other place? A. Yes. There was this $600,000 item credited to depreciation reserve in 1927, which was ultimately transferred to this reserve.

Q. That $600,000 came from a depreciation reserve that had been disallowed? A. Yes, it was on some special plant.

BY THE COMMISSIONER: Q. What do you mean, by disallowed? A. The income tax department would not allow it as a depreciation reserve, so it

Q. Well, we had better take this year, 1956, which we have in front of us at the moment.

There was an inventory reserve of $1,300,000, and [illegible] by $871,000, and a general reserve of $116,582, and debts reserve $150,000, and miscellaneous reserve $303,308.80. Miscellaneous reserve and the general reserve were ultimately merged into one account reserve account. That means a total of $1,971,850 -- $1,300,000 for inventory, $150,000 for bad debts, $116,582 for general reserve, and $303,308 miscellaneous reserve, but the reserve like it was transferred to it had been created prior to that time.

A. It was set up as an investment reserve in 1951, and how much did it amount to ? A. $600,000.

Q. Was it later amplified? A. Next year it was increased to $1,000,000.

BY THE CHAIRMAN: Q. In what year ?

A. In the following year, 1952.

BY MR. MCMURRAY: Q. This investment reserve was created by transfer from some other place? A. Yes. There was this $600,000 item credited to depreciation reserve in 1957, which was ultimately transferred to this reserve.

Q. That $600,000 came from a depreciation reserve that had been disallowed? A. Yes, it was on some special plant.

BY THE CHAIRMAN: Q. What do you mean, by disallowed? A. [illegible]

was transferred out of depreciation reserve.

BY MR. McRUER: Q. To investment reserve? A. Yes.

BY THE COMMISSIONER: Q. Was it then looked upon more favorably by the income tax department? A. No, I do not think investment reserve is allowable anyway.

Q. That is a fair tax. A. As far as I know.

BY MR. McRUER: Q. In 1932 there was another $1,000,000 transferred? A. They transferred $1,000,000 from inventory reserve.

Q. Into the investment reserve? A. Into investment reserve. The investment reserve stands now at $1,600,000. In 1923 there was a transfer from general reserve, from surplus account, of $1,000,000. Then they charged off in 1933 $1,154,855 and credited it to the investment account. In other words, they actually wrote down the value of the investments $1,154,855.

Q. So they charged off that amount as losses on investments? A. Yes.

Q. And anticipated losses, at any rate? A. They actually wrote the values down on their books by this $1,154,855. Then in 1934 they charged against this $182,223.76, representing the deficit of the Sherbrooke Cotton Company when it was merged into this company's accounts, and in 1936 they transferred back from this account to the inventory reserve

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was transferred out of depreciation reserve.

BY MR. MONTGOMERY: Q. To investment reserve?

A. Yes.

BY THE COMMISSIONER: Q. Was it then loaded
with more favorably by the income tax department?
A. Yes, I mean that investment reserve is allow-
able anyway.

Q. That is a fair tax. A. As far as I
know.

BY MR. MONTGOMERY: Q. In 1932 there was another
$1,000,000 transferred? A. They transferred
$1,000,000 from investment reserve.

Q. Into the investment reserve? A. Into
investment reserve. The investment reserve stands
now at $1,432,000. In 1933 there was a transfer
from general reserve, from surplus account, of
$1,000,000. Then they entered all in the
$1,124,000 and credited it to the investment reserve?
In other words, they actually wrote down the value
of the investments $1,124,000.

Q. Yes.

A. And entered losses, as may be seen
by the $1,124,000. They actually wrote the values down on their
books by the $1,124,000. They had [illegible]
of the depreciation letter coming when it was moved
into this company's reserve, and in 1936 there was

account $500,000. So the investment reserve at the end of 1936 had a credit balance of $762,921.24, and the inventory reserve had a credit of $1,000,000.

Q. And is that the condition of the inventory reserve at the present time? A. On March 31, 1936.

Q. How much? A. $1,000,000.

Q. There is an indication, is there not, that there was a further inventory reserve than that? A. Yes.

Q. That is not the whole story of inventory reserve? A. No.

Q. We will not go further into that matter at the moment.

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-- The Commission adjourned at 5 p.m. to resume at 10 o'clock a.m. Tuesday, November 17, 1936.

- - - - -

account $800,000. So the Inventory Reserve at the end of 1956 had a credit balance of $752,921.24, and the Inventory reserve had a credit of $1,000,000.

Q. And is that the condition of the Inventory reserve at the present time? A. On March 31, 1958.

Q. How much? A. $1,000,000.

Q. There is an indication, is there not, that there was a further Inventory reserve than that?

A. Yes.

Q. That is not the whole story of Inventory reserve? A. No.

Q. We will not go further into that matter at the moment.

-- The Commission adjourned at 5 p.m. to resume at 10 o'clock a.m. Tuesday, November 17, 1959.

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

N I N E T Y - S E C O N D D A Y

(November 17, 1936)

Robert Brydie,
Official Reporter.

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(November 17, 1928)

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

Appearances:

J.C. McRuer, K.C.) and E. Beauregard, K.C.)	Commission Counsel,
J.P. Lanctot, K.C.) and R.L. Kellock, K.C.)	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C.) Aime Geoffrion, K.C.) and C.T. Ballantyne,)	For Dominion Textile Company.
S.G. Dixon, K.C.	For Courtaulds Limited,
L.A. Forsyth, K.C.	For Canadian Celanese Limited, and Canadian Silk Products Limited.

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Ottawa, Ontario,
November 17, 1936.

-- The Commission resumed at ten o'clock a. m.

THE COMMISSIONER: All right, Mr. McRuer.

BY MR. McRUER: Q. Mr. Howson, I think when we adjourned last evening we were discussing the question of outside investments, and you were going to get us some information on the question of the depreciation in the equity in investments in subsidiaries and outside investments. It fell in 1932 from $12,761,000 to $7,681,000 in 1936. A. The explanation of that drop is the write-off of $1,154,000 from the value of the outside investments and the transfer from that category of the Sherbrooke Cotton Company into the general accounts of Dominion Textile. The reason that the capital employed shown above does not go up because of that is because the depreciation written off during these years offsets the increase in the capital assets.

Q. I see. A. And there is a reduction in surplus over the period through the payment of dividends and other disbursements.

Q. Yes. Now I think we will turn to your memorandum on Capital Earnings.

THE COMMISSIONER: That is another sheet?

MR. McRUER: Yes, my Exhibit is paged, and it is page 9.

THE COMMISSIONER: I have it, Memo re Capital Earnings.

Ottawa, Ontario,
December 17, 1936.

-- The Commission resumed at ten o'clock a. m.

BY MR. MONDER: Q. Mr. Lowe, I think when we adjourned last evening we were discussing the question of outside investments, and you were going to get us some information on the question of the depreciation in the equity in investments in subsidiaries and outside investments. It fell in 1935 from $15,781,000 to $7,681,000 in 1936. A. The explanation of that drop is the write-off of $1,104,000 from the value of the outside investments and the transfer from that category of the Sherbrooke Cotton Company into the general revenue of Dominion Textile. The reason that the capital employed shows does not go up because of that is because the depreciation written off during these years offsets the increase in the capital assets.

Q. I see. A. And there is a reduction in surplus over the period through the payment of dividends and other disbursements.

Q. Yes. Now I think we will turn to your memorandum on Capital Earnings.

THE COMMISSIONER: That is another Brief?

MR. MONDER: Yes. My Exhibit is packed, and it is

I have it. Memo re Capital

MR. McRUER: This page or Exhibit 916 deals with the capital of the company over the years 1906 to 1926 inclusive, the bonds outstanding, the interest paid on the bonds, the interest paid on the preferred stock, the dividends paid on the preferred stock --

THE WITNESS: There is no interest paid on the preferred stock, just dividends.

MR. McRUER: Yes, just dividends. It also shows the amount of money invested in common stock, the accumulated surplus --

BY THE COMMISSIONER: Q. What does that mean, accumulated surplus $5,392,000? Now what form does it take? A. It is an undistributed surplus representing the excess of assets over the capital investment.

BY MR. McRUER: Q. Your statement also shows the common stockholders equity, the dividends paid on the common stock, the interest on the Montmorency bonds, the rent and interest on Dominion Cotton Company, the dividends received by shareholders of Dominion Cotton Company, merchants' rent and interest, and merchants' dividends. A. The dividends received by the company from the Dominion Cotton Company.

Q. Yes. Now to start with the year 1906, and we will deal with the investment in common stock, the cash paid on account of the common stock amounted to how much, Mr. Howson? A. $500,000.

Q. The shares issued for that amounted to how much? A. Par value?

MR. MORDEN: This page of exhibit 916 deals with the capital of the company over the years 1906 to date inclusive, the dividends, the interest paid on the bonds, the interest paid on the preferred stock, the dividends paid on the preferred stock --

THE WITNESS: There is no interest paid on the preferred stock. Just dividends.

MR. MORDEN: Yes, just dividends. It also shows the amount of money invested in common stock, the accumulated surplus --

BY THE CHAIRMAN: Q. What does that mean, accumulated surplus $5,592,000 ? Now what form does it take ? A. It is an undistributed surplus representing the excess of assets over the capital liabilities.

BY MR. MORDEN: Q. Your statement also shows the common stockholders equity, the dividends paid on the common stock, the interest on the bonds, the rent and interest on Dominion Cotton Company, the dividends received by subsidiaries of Dominion Cotton Company, merchants' rent and interest, and dividends received by the company from the Dominion Cotton Company.

Q. Yes. Now to start with the year 1906, and we will deal with the investment in common stock, the cash paid on account of the common stock amounted to how much, Mr. Howson? A. $300,000.

Q. The shares issued for that amounted to

Q. Yes. A. $5,000,000.

Q. $5,000,000, and they were taken into the books of the company at that? A. Yes.

Q. At $5,000,000. Now the dividends paid on this investment of $500,000 --

MR. BALLANTYNE: Was that in cash?

MR. McRUER: Paid in cash, yes.

BY MR. McRUER: Q. Now the dividends paid on this investment of $500,000 are what for the year 1906? A. There were no dividends paid in 1906.

Q. 1907? A. Nothing paid there.

Q. 1908? A. $250,000.

Q. $250,000. So that the first dividend in 1908 would be at the rate of 50 per cent per annum return on the investment for that year? A. On the cash paid for the stock.

Q. On the cash paid for the stock, yes. Now 1909? A. $250,000.

Q. 1910? A. $250,000.

Q. 1911? A. $250,000.

Q. 1912? A. $250,000.

Q. 1913? A. $275,000.

Q. So that from 1908 to 1912 the return was at the rate of 50 per cent per annum on the case invested? A. Yes.

Q. And in 1913 it was increased to ? A. $275,000.

Q. And that would be at what rate per annum, 55 per cent, would it not ? A. Yes.

Q. Yes. A. $5,000,000.

Q. $5,000,000, and they were taken into the books of the company at that? A. Yes.

Q. At $5,000,000. Now the dividends paid on this investment of $500,000 --

MR. RAMSTEIN: Was that in cash?

MR. McRUER: Paid in cash, yes.

BY MR. McRUER: Q. Now the dividends paid on this investment of $500,000 are what for the year 1907? A. There were no dividends paid in 1907.

Q. 1907? A. $250,000.

Q. $250,000. So that the first dividend in 1908 would be at the rate of 50 per cent per annum return on the investment for that year? A. On the cash paid for the stock.

Q. On the cash paid for the stock, yes. Now 1909? A. $250,000.

Q. 1910? A. $250,000.

Q. 1911? A. $250,000.

Q. 1912? A. $275,000.

Q. So that from 1908 to 1912 the return was at the rate of 50 per cent per annum on the cash invested?

A. Yes.

Q. And in 1912 it was increased to?

A. $275,000.

Q. And that would be at what rate per annum,

Q. Then in 1914? A. $300,000.

Q. That would be at the rate of ? A. 60 per cent.

Q. 60 per cent per annum. Then 1915? A. $300,000.

Q. 1916? A. $300,000.

Q. 1917? A. $300,000.

Q. So that for the years 1914 to 1917 inclusive the return was at the rate of 60 per cent per annum? A. Yes.

Q. Then 1918? A. $350,000.

Q. That would be at the rate of ? A. 70 per cent.

Q. 70 per cent per annum. Then 1919? A. $400,000.

Q. That would be at the rate of ? A. 80 per cent.

Q. 1920? $400,000.

Q. Again at the rate of 80 per cent per annum? A. Yes.

Q. 1921? A. $500,000.

Q. That would be at the rate of ? A. 100 per cent.

Q. 100 per cent per annum. Then 1922? A. In 1922, $600,000.

Q. That would be at the rate of ? A. 120 per cent.

Q. 120 per cent per annum. Now from the year 1906 to 1922 inclusive there was no new investment in

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Q. Then in 1914? A. $300,000.

Q. That would be at the rate of ? A. 60 per cent.

Q. 60 per cent per annum. Then 1915?

A. $300,000.

Q. 1916? A. $300,000.

Q. 1917? A. $300,000.

Q. So that for the years 1914 to 1917 inclusive the return was at the rate of 60 per cent per annum?

A. Yes.

Q. Then 1918? A. $30,000.

Q. That would be at the rate of ? A. 70 per cent.

Q. 70 per cent per annum. Then 1919?

A. $60,000.

Q. That would be at the rate of ? A. 80 per cent.

Q. Then 1920? A. $60,000.

Q. Again at the rate of 80 per cent per annum?

A. Yes.

Q. 1921? A. $60,000.

Q. That would be at the rate of ? A. 100 per cent.

Q. 100 per cent per annum. Then 1922?

A. In 1922, $60,000.

Q. That would be at the rate of ? A. 120 per cent.

Q. 120 per cent per annum. Now from the year 1906 to 1922 inclusive there was no new investment in

common stock? A. There was no new investment.

Q. Then in 1923 what took place? A. There was an issue of common stock, 25,000 shares for $2,500,000.

BY THE COMMISSIONER: Q. Are they par value? A. Par value.

Q. $100 a share? A. Yes.

BY MR. McRUER: Q. Can you tell me whether or not any dividend was paid on the new stock in the year 1923?

BY THE COMMISSIONER: Q. How was it issued, for what? A. For cash.

MR. McRUER: For cash, yes.

BY MR. McRUER: Q. Can you tell me whether or not any dividend was paid on the new stock in the year 1923 or whether the amount that is set out in your statement was attributed solely to the old stock? A. There was $70,803 paid on the new stock.

Q. There was $70,803 paid on the new stock, and on the old stock? A. $600,000.

Q. So that the cash investment in the original common stock -- A. Received $600,000.

Q. Received $600,000 or a return at the rate of 120 per cent per annum in 1923? A. Yes.

Q. Now before I go on from 1922, if I want to get a bit of a summary if I can there. The dividends paid on the original investment of $500,000 from the year 1906 to 1922 amounted to how much?

A. $4,975,000.

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common stock? A. There was no new investment.

Q. Then in 1928 what took place? A. There was an issue of common stock, 25,000 shares par $4,000,000.

BY THE CHAIRMAN: Q. Are they par value?

A. Par value.

Q. Were all par value? A. Yes.

BY MR. McGUIRE: Q. Can you tell me whether or not any dividend was paid on the new stock in the year 1928?

BY THE CHAIRMAN: Q. How was it issued, for what? A. For cash.

MR. McGUIRE: For cash, yes.

BY Mr. McGUIRE: Q. Can you tell me whether or not any dividend was paid on the new stock in the year 1928 or whether the amount that is set out in your statement was attributed solely to the old stock?

A. There was $70,808 paid on the new stock.

Q. There was $70,808 paid on the new stock, and on the old stock? A. $800,000.

Q. So that the cash investment in the original —

Q. Received $600,000 or a return at the rate of 120 per cent per annum in 1928? A. Yes.

Q. Now before I go on from 1928, if I want to get a bit of a summary if I can there. The dividends paid on the original investment of $500,000 from the year 1928 to this examination [illegible]

A. $4,473,000.

BY THE COMMISSIONER: Q. What is that, the interest, did you say? A. The sum of the dividends.

BY MR. McRUER: Q. I see by your statement that the accumulated surplus alone amounted to --

A. $5,007,700.57.

Q. That was the undistributed surplus at that time? A. Yes, sir.

Q. That is a feature we will deal with a little later. Now we have those two figures at any rate, $4,975,000 distributed and $5,007,700.57 undistributed? A. Yes.

BY THE COMMISSIONER: Q. That is the excess of assets over liabilities? A. That is the undistributed surplus.

BY MR. McRUER: Q. Not to confuse the record, we will not say it is the excess of assets over liabilities, because we analyze that a little bit further later on. It is the undistributed surplus according to their balance sheet? A. Yes.

THE COMMISSIONER: You are just taking what they show now?

MR. McRUER: On the balance sheet, yes, my lord.

BY MR. McRUER: Q. Now we will proceed from 1922 to 1936. You told us there was an additional stock issue of $2,500,000, and the original issue was $5,000,000, so that from 1923 to 1928 inclusive the original investment would bear a ratio of $5,000,000 to $7,500,000 total capital? A. Yes.

BY MR. [illegible]: Q. What is that, the interest, did you say? A. The sum of two [illegible].

BY MR. [illegible]: Q. I see by your statement the [illegible] A. $5,007,709,57.

Q. That was the undistributed surplus at that time? A. Yes, sir.

Q. That is a feature we will deal with a little later. Now we have two figures at any rate, $4,975,000 distributed and $5,007,709.57 undistributed? A. Yes.

BY MR. [illegible]: Q. That is the excess of assets over liabilities? A. That is the [illegible].

BY MR. [illegible]: Q. Not to continue the record, we will not say it is the excess of assets over liabilities [illegible] 1922 [illegible] later on. It is the undistributed surplus according to their balance sheet? A. Yes.

THE [illegible]: You are just taking what they show now?

MR. [illegible]: On the balance sheet, yes, my lord.

BY M[illegible]: Q. Now we will proceed from 1922 to 1925. You will as there appeared [illegible] stock issue of $2,500,000, and the original issue was $[illegible],000,000, so that from 1922 to 1925 inclusive the original investment would bear a ratio of $5,000,000 to $7,500,000 total capital? A. Yes.

BY THE COMMISSIONER: Q. The total cash investment? A. The total capital issued.

BY MR. McRUER: Q. The total capital issued was $7,500,000, and $2,500,000 was paid for in cash by outside investors, and the original issue was $5,000,000. A. Two-thirds of the total issue.

Q. Or two-thirds of the total issue from the years 1923 to 1928 inclusive. Now the dividends attributable to the original investment of $500,000 from the years 1923 to 1928 inclusive -- what is the total for 1923 first? A. Do you want each year separately, or do you want the total? 1923, $600,000.

THE COMMISSIONER: I understood that Mr. McRuer wanted the amount of the dividends attributable to the original investment. Was not that your question?

MR. McRUER: That is my question.

THE COMMISSIONER: Not the total dividends.

THE WITNESS: $600,000 in 1923.

BY MR. McRUER: Q. This is attributable to the stock issued as against the original investment of $500,000 ? A. Yes, sir. 1923, $600,000.

Q. That is at the rate of 120 per cent? A. Yes. 1924, $600,000.

MR. GEOFFRION: There is $900,000 over the $3,000,000.

THE COMMISSIONER: The witness is separating the first investment from the second. I am not sure that I follow him myself.

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BY THE CHAIRMAN: Q. The total cash investment? A. The total capital issued.

BY MR. MORDEN: Q. The total capital issued was $7,500,000, and $2,500,000 was paid for in cash by outside investors, and the original issue was $5,000,000. A. Two-thirds of the total issue.

Q. Or two-thirds of the total issue from the years 1926 to 1928 inclusive. Now the dividends attributable to the original investment of $500,000 from the years 1926 to 1928 inclusive -- what is the total for 1926 first? A. Do you want each year separately, or do you want the total? 1926, $600,000.

THE CHAIRMAN: I understood that Mr. Morden wanted the amount of the dividends attributable to the original investment. Was not that your question?

MR. MORDEN: That is my question.

THE WITNESS: $600,000 in 1926.

BY MR. MORDEN: Q. This is attributable to the stock issued as against the original investment of $500,000 ? A. Yes, sir. 1926, $600,000.

Q. That is at the rate of 120 per cent?

A. Yes. 1926, $600,000.

MR. GROTTENDON: There is $900,000 over the $5,000,000.

MR. GEOFFRION: The dividends were equally applied on all shares afterwards.

BY MR. McRUER: Q. As against the investment of $500,000, there was $5,000,000 of shares issued? A. Yes.

Q. In 1923 as against an investment of $2,500,000 there was $2,500,000 of shares issued? A. Yes.

Q. Therefore on the original investment of $500,000 they drew dividends of $5,000,000 of stock. A. Yes.

Q. Or two-thirds of the total dividends went to them? A. Yes.

Q. Now I am dividing the dividends that were paid.

MR. GEOFFRION: My interruption was in connection with 1923.

MR. McRUER: They only paid the dividends on the stock for a portion of the year, just the tail end.

MR. GEOFFRION: I understand, but this is no admission.

MR. McRUER: Oh no.

THE COMMISSIONER: It is only in that first year that the anomaly appears.

MR. GEOFFRION: I understand now.

BY MR. McRUER: Q. Then coming to the year 1925 I think you said that $600,000 was attributable to the original investment, Mr. Howson? A. Yes.

Q. Then in 1926? A. $750,000.

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applied on all shares afterwards.

BY MR. McRUER: Q. As against the investment of $500,000, there was $2,500,000 of reserves issued?

A. Yes.

Q. In 1929 as against an investment of $2,500,000 there was $2,500,000 of shares issued?

A. Yes.

Q. Therefore on the original investment of $500,000 there were distributed $2,000,000 of them.

A. Yes.

Q. Or two-thirds of the total dividends went to them? A. Yes.

Q. Now I am dividing the dividends that were paid.

MR. CHEVRIER: My interruption was in connection with this.

MR. McRUER: They only paid the dividends on the stock for a portion of the year, just the tail end.

MR. CHEVRIER: I understand, but this is no explanation.

MR. McRUER: Oh no.

THE COMMISSIONER: It is only in the first year that the anomaly appears.

BY MR. McRUER: Q. Then coming to the year 1928 I think you said that $500,000 was attributable to the original investment, Mr. McKeon? A. Yes.

Q. Then in 1929 A. Yes.

Q. That would be at the rate of how much per annum? A. 150 per cent per annum.

Q. In 1927? A. $750,000.

Q. Again 150 per cent per annum. In 1928? A. $750,000.

Q. Again 150 per cent per annum? In 1929? A. In 1929 there was a further issue of new stock.

Q. Yes, there was a further issue of new stock in 1929, and I suppose a small portion of the dividends was attributable to the new stock?

BY THE COMMISSIONER: Q. What was the amount of that issue? A. $3,375,000. These were no par shares.

Q. They were charged at ? A. At the rate of $75 a share.

Q. And how much ? A. $3,375,000.

BY MR. GEOFFRION: Q. $75 a share ? A. Yes.

BY THE COMMISSIONER: Q. For cash? A. For cash, yes, sir.

BY MR. McRUER: Q. Now the shares issued against the original investment of $500,000 would now bear what relation to the total capital? A. Five-ninths.

Q. Five-ninths from then on.

BY THE COMMISSIONER: Q. This was invested in 1929 or 1930? A. During the year ending March 31, 1929.

BY MR. McRUER: Q. Now what would be the dividend for the year 1929 attributable to the original investment? A. $750,000.

Q. That would be at the rate of how much per annum? A. 150 per cent per annum.

Q. In 1927? A. $750,000.

Q. Again 150 per cent per annum. In 1928?

A. $750,000.

Q. Again 150 per cent per annum? In 1929?

A. In 1929 there was a further issue of new stock.

Q. Yes, there was a further issue of new stock in 1929, and I suppose a small portion of the

BY THE COMMISSIONER: Q. What was the amount of that issue? A. $2,875,000. Those were no par shares.

Q. They were charged at? A. At the rate of $75 a share.

Q. And how much? A. $2,875,000.

BY MR. GIBBENS: Q. $75 a share?

A. Yes.

BY THE COMMISSIONER: Q. For cash?

A. For cash, yes, sir.

BY MR. MONK: Q. How the shares issued again the original investment of $500,000 would now bear what relation to the total capital? A. Five-eighth

Q. Five-eighths from them on.

BY THE COMMISSIONER: Q. This was invested in 1929 or 1930? A. During the year ending March 31, 1929.

BY MR. MONK: Q. Now what would be the

Q. $750,000, that is 150 per cent again. Then we turn the corner into the depression. In 1930 what dividend was paid on the shares issued against the original investment of $500,000?

A. $750,000.

Q. And in 1931 ?

BY THE COMMISSIONER: Q. That is 150 per cent? A. Yes.

BY MR. McRUER: Q. And in 1931? A. $750,000.

Q. So it was 150 per cent in each of those years? A. Yes.

Q. Then we had a sad drop in 1932. How much was it that year? A. $750,000.

Q. 1932? A. Yes.

Q. It is 1933 I want; 1932 is stil 150 per cent. A. 1933, $712,005.

Q. So the return dropped to 142½ per cent? A. Yes.

Q. Then 1934? A. $600,000.

Q. And the return that year was 120 per cent? A. Yes, sir.

Q. Then in 1935? A. $750,000.

Q. A little better that year?

THE COMMISSIONER: That is 150 per cent.

BY MR. McRUER: Q. It was 150 per cent that year? A. Yes.

Q. Then in 1936? A. $750,000.

Q. And we wind up with 150 per cent. Now to summarize this, Mr. Howson, will you give me the

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Q. $750,000, that is 150 per cent again.

Then we turn the corner into the depression. In 1930 what dividend was paid on the shares issued against the original investment of $500,000?

A. $750,000.

Q. And in 1931?

BY THE COMMISSIONER: Q. That is 150 per cent?

A. Yes.

Q. So it was 150 per cent in each of those years?

A. Yes.

Q. Then we had a bad drop in 1932. How much was it that year? A. $750,000.

Q. Same? A. Yes.

Q. It is 1933 I want; 1933 is still 150 per cent.

Q. So the return dropped to 1433 per cent?

A. Yes.

Q. And the return that year was 150 per cent?

A. Yes, sir.

Q. Then in 1935? A. $750,000.

Q. A little better that year?

THE COMMISSIONER: That is 150 per cent.

year? A. Yes.

Q. Then in 1936? A. $750,000.

total dividends paid from 1905 to 1936 as against the stock issued for the original investment of $500,000? A. $14,837,500.

MR. BALLANTYNE: That is the total against the $500,000 cash?

BY THE COMMISSIONER: Q. That is produced from $500,000? A. Yes.

BY MR. McRUER: Q. That is the return that has been made? A. Yes.

Q. Now let us go on to see what there is yet with respect to the $500,000. Have you worked out the equity that exists in the company or the share of the total equity in the company that might be taken as the proportion applicable to the original investment of $500,000 -- that is the equity that is there now?

THE COMMISSIONER: Are you in the column of common shareholders equity ?

MR. McRUER: No, this is another figure, my lord.

THE COMMISSIONER: It is not on the sheet?

MR. McRUER: No, my lord, it is on another sheet.

THE WITNESS: Do you want it as it is on the books of the company?

BY MR. McRUER: Q. In the first place, I want it in accordance with their books of record. What do they show to be still there for the investment of $500,000? A. $7,748,000.

Q. $7,748,000 ? A. Odd.

total dividends paid from 1905 to 1956 as against the stock issued for the original investment of $500,000?

A. $14,687,500.

Q. MACLAREN: That is the total against the $500,000 used?

BY THE COMMISSIONER: Q. That is produced from $500,000? A. Yes.

BY Mr. MORTON: Q. That is the return that has been made? A. Yes.

Q. Now let us go on to see what there is yet with respect to the $500,000. Here you worked out the equity that exists in the company or the share of the total equity in the company that might be taken as the proportion applicable to the original investment of $500,000 -- that is the equity that is there now?

THE COMMISSIONER: Are you in the column of common shareholders equity ?

MR. MORTON: No, this is another figure, my lord.

THE COMMISSIONER: It is not on the sheet?

MR. MORTON: No, my lord, it is on another sheet.

THE WITNESS: Do you want it as it is on the books of the company?

BY MR. MORTON: Q. In the first place, I want it in accordance with their books of record. What do they show to be still there for the invest-

ment of $500,000? A. $7,748,000.

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Q. Yes. In other words, that is five-ninths of the common stockholders equity shown on page 9 at the foot of the column headed "Common Stockholders Equity?" A. Yes.

THE COMMISSIONER: It is five-ninths of that?

MR. McRUER: Yes, my lord.

BY MR. McRUER: Q. That is according to their books? A. Yes.

Q. Now have you been shown records that would indicate that the equity is in excess of that figure? A. I have made up a statement which appears in this binder.

BY THE COMMISSIONER: Q. Where abouts? A. Two pages from the front.

Q. Summary of Operations ? A. Yes.

Mr. McRUER: Pages 7 and 8, my lord.

BY MR. McRUER: Q. You have endeavoured to work out what the true equity is according to information you have been able to get? A. Probably the sheet next to that, my lord, you had better look at that.

BY THE COMMISSIONER: Q. Summary of Capital Expenditures? A. Yes. On the basis of this statement, the unabsorbed portion of the total fixed assets, March 31, 1936, on a cost basis, amounts to $4,917,904.83. The company have shown me an assurance appraisal which was taken in 1936 which shows the value of buildings and machinery at $20,100,000. In addition to that is the land

Q. Yes. In other words, that is a re-valua-
tion of the common shareholders equity shown on page 9
at the foot of the return, Model "Common Stockholders
Equity"? A. Yes.

MR. [illegible]: It is irrelevant at this
point, [illegible]: Yes, my Lord.

MR. [illegible]: Q. That is correct to that
extent? A. Yes.

Q. Now have you been given records that would
indicate that the equity is in excess of that figure?
A. I have made a statement which appears in
this letter.

Q. Two pages from the end?

Q. Summary of Operations? A. Yes.

MR. [illegible]: Pages 7 and 8, my Lord.

BY MR. [illegible]: Q. You have endeavored to
work out what the true equity is according to
information you have been able to get?
A. Principally the sheet next to that, My Lord, you
[illegible] have at page 8.

BY THE [illegible]: Q. Summary of Capital
Expenditures? A. Yes. On the basis of
this statement, the unamortized position of the Hotel
Fixed Assets, Motor Et, Land, one cent basis,
[illegible] $4,917,000. The [illegible] have
an assurance appraisal which was taken in June
with [illegible]

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and the substructures. The land in the 1920 appraisal was valued at $1,583,456.83, and I have estimated the land purchased since that time and the substructure of the buildings at $500,000.

BY MR. McRUER: Q. And do you feel this is a conservative estimate? A. Yes, I would think this a very conservative estimate, because the land purchased since then is the land on which the head office building is located.

Q. That is at the corner of Victoria Square in the city of Montreal? A. Yes.

Q. Quite a large office building there in the centre of the city? A. The value of the building is in the insurance appraisal.

Q. Yes? A. Making $22,183,633 as against $4,000,000.

Q. Just so we understand it clearly as we go along, the value carried on the books is $4,917,904.83? A. No, not the value carried on the books. That is the value I have calculated after eliminating the inflation.

Q. Oh yes. That is the value that you take after eliminating the inflation and any good will or anything of that sort? A. Yes.

Q. And you get it down to the value of the assets as depreciated on the books after making these eliminations? A. The details of that are shown in this statement.

Q. And the $4,917,000 is the value that is

and the substructure. The land in the 1920 appraisal was valued at $1,560,456.80, and I have estimated the land purchased since that time and the substructure of the buildings at $500,000.

BY MR. HOWSON: Q. And do you feel this is a conservative estimate? A. Yes, I would think this a very conservative estimate, because the land purchased since then is the land on which the head office building is located.

Q. That is at the corner of Victoria Square in the city of Montreal? A. Yes.

Q. Quite a large office building there in the centre of the city? A. The value of the building is in the insurance appraisal.

Q. Yes? A. Making $22,188,688 as against $4,000,000.

Q. Just so we understand it clearly as we go along, the value carried on the books is $4,917,904.80? A. No, not the value carried on the books. That is the value I have calculated after eliminating the inflation.

Q. Oh yes. That is the value that you have after eliminating the inflation and any profit will or anything of that sort? A. Yes.

Q. And you get it down to the value of the

taken for the purpose of your calculation on page 9, which shows a common stockholders equity of $13,947,000? A. Please repeat the question.

Q. The figure of $4,917,000 is the figure that is taken for the purpose of the calculation of the common stockholders equity at the end of 1936, showing $13,947,000? A. No, that does not enter into that statement.

Q. It does not enter into that? All right. Then deal with page 8. A. I think I had better review that whole page.

Q. You have gone so far that for the purposes of the record, just let us complete it. You have taken the assets as shown by the books, after the elimination of the inflation and so on, to be $4,917,000.

BY THE COMMISSIONER: Q. That is after eliminating depreciation, repairs account, profit and loss, contingent reserves --

BY MR. McRUER: Q. Eliminating all those. Then you take the insurance appraisal, which you take as a basis for showing the value there today? A. Yes, the approximate value.

Q. The approximate value, yes, that shows $20,000,000.

THE COMMISSIONER: No, $22,000,000.

BY MR. McRUER: Q. $22,183,633? A. Yes.

Q. Taking that into consideration, that is the value as shown by the insurance appraisal, and

not as shown by the books, what is the common stockholders equity apportioned to the original investment of $500,000? A. $17,164,141.

BY MR. BALLANTYNE: Q. Are you valuing the whole thing on the basis that you previously used?

MR. McRUER: You have to adjust it on the basis I previously used, but we have to take in other figures as well.

MR. GEOFFRION: It is $11,000,000 on the books and you have $17,000,000. Is that it?

MR. McRUER: It does not work out quite that way. You have to take the inventory into account, etc.

THE WITNESS: It is a combination figure.

BY MR. McRUER: Q. So you take the basis of the valuation put on the building and machinery for the purpose of an insurance appraisal in 1936 into consideration, after having received $14,837,500 of dividends on this original investment of $500,000. The holders of that stock still have an equity of $17,164,000? A. Yes, as far as I can figure it out.

Q. Have you a memorandum of this set-up, Mr. Howson, that we can file for future reference?

A. Yes.

THE COMMISSIONER: Is this a new document to be filed?

MR. McRUER: Yes, my lord. It is a memorandum re the original investment, common stock, for which the company received $500,000 in cash.

THE COMMISSIONER: This will be Exhibit 946.

not as shown by the books, what is the common stockholders equity appertioned to the original investment of $500,000?

A. $17,164,141.

BY MR. DUNNING: Q. Are you using the whole thing on the basis that you previously used?

MR. MORLEY: You have to adjust it on the basis I previously used, but we have to take in other figures as well.

MR. GERSTEIN: It is $11,000,000 on the books and you have $17,000,000. Is this it?

A. It does not work out quite that way. You have to take the inventory into account, et

THE WITNESS: It is a combination figure.

the valuation put on the building and equipment for the purpose of an insurance appraisal in 1926 into consideration, after having received $14,897,500 of dividends on this original investment of $500,000. The holders of the stock still have an equity of $17,164,000?

A. Yes, we've got figures

it out.

Q. Have you a memorandum of this set-up, Mr. Dawson, that we can file for future reference?

A. Yes.

MR. CHARLESWORTH: Is this a new document to be

MR. MORLEY: Yes, my lord. It is a memorandum

the company received $500,000 in cash.

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EXHIBIT 946: Memorandum re original investment, Dominion Textile Company, for which the company received $500,000 in cash.

BY MR. McRUER: Q. In this memorandum, Exhibit 946, Mr. Howson, you set up the manner in which you have worked out the details which we have been dealing with, and you summarize it at the end, showing the amount of dividends paid, showing the share in the assets owned by the company applicable to the original common stock, and the total is $32,001,641 ? A. Yes.

(Page 12670 follows)

EXHIBIT 946: Memorandum re original investment, Dominion Textile Company, for which the company received $500,000 in cash.

BY MR. NEWMAN: Q. In this memorandum, Exhibit 946, Mr. Bowman, you set up the manner in which you have worked out the details which we have been dealing with, and you summarize it at the end, showing the amount of $1,692,000 paid, showing the share in the case owned by the company applicable to the original common stock, and the total is $82,001,641 ? A. Yes.

(Page 13870 follows)

Q. Just in reference to Exhibit 946 I might just make a reference on the record to pages 7, 8 and 9 of Exhibit 917. Now, Mr. Howson, to come back to page 8 of Exhibit 917, and we will go into in detail how you arrive at the, I might say, the apparent real value of these assets. In the first place you take water power and sundries; where do you get that figure ? A.From a statement provided by the company that has been filed as Exhibit 944.

Q. All right; then you take land and buildings ? A. It is all prepared from this statement.

Q. Pardon ? A. It is all prepared from the statement, that is, the accumulation of the values.

Q. Then, these figures come from the records that have been supplied to you by the company ? A. Yes.

Q. Land and buildings you take in at $18,682,259.99 less sales amounting to $210,712.33 ? A. 35 cents.

Q. $210,712.35; that is the book charges for the land and buildings ? A. Yes.

MR. GEOFFRION: What is the number of this Exhibit, please ?

MR. BEAUREGARD: 946.

BY MR. McRUER: Q. Then we have machinery and equipment of $22,390,694.54.

MR. GEOFFRION: Pardon me, Mr. McRuer, what page are you reading from ?

MR. McRUER: 8, just the one before that, Mr. Geoffrion. Machinery and equipment less sales $51,888.53 leaving a net figure of $22,338,806.01 ? A. Yes.

Q. Just in reference to Exhibit 916 I might just make a reference on the record to pages 7, 8 and 9 of Exhibit 917. Now, Mr. Howson, to come back to page 8 of Exhibit 917, and we will go into in detail how you arrive at the, I might say, the apparent real value of these assets. In the first place you take water power and sundries; where do you get that figure ? A. From a statement provided by the company that has been filed as Exhibit one.

Q. All right; then you take land and buildings ?

A. It is all prepared from this statement.

Q. Pardon ? A. It is all prepared from the statement, that is, the accumulation of the values.

Q. Then, those figures come from the records that have been supplied to you by the company ? A. Yes.

Q. Land and buildings you take in at $18,888,888.8 less sales amounting to $810,712.58 ? A. 85 cents.

Q. $810,712.58; that is the book charges for the land and buildings ? A. Yes.

MR. CHAIRMAN: What is the number of this property, please ?

MR. ROBERTSON: 946.

BY MR. MORDEN: Q. Then we have machinery and equipment of $22,890,694.54.

MR. CHAIRMAN: Pardon me, Mr. Mosher, what page are you reading from ?

MR. [illegible]: 8, just the one before that, Mr. [illegible]. Machinery and equipment Land values

Q. Leaving a net figure of $22,888,018.01 ?

Q. Or a total of $41,679,227.06; now, those are the charges in the books to these accounts ? A. According to the statement that has been rendered by the company.

Q. According to the statement that has been rendered to you by the company ? A. The questionnaire did not cover this whole period so I had to get a supplementary statement.

Q. But what you have got, these figures, they are from the company ? A. Yes.

Q. Then, you deduct excess of book value over purchase price of capital assets taken over from predecessor companies $2,191,261.37; where do you get that figure ? A. That is the total fixed assets taken over, or the total assets taken over by the company from the four predecessor companies whose balance sheets were submitted. The Montmorency Cotton Mills Company, the Colonial Bleaching and Printing Company, the Dominion Cotton Mills Company and the Merchants Cotton Company were valued on the statements here at $10,784,291.72, and the settlement --

Q. You say valued on the statements here; you are referring to Exhibit No.-- A. 943.

Q. Yes, that is the last statement, the last annual statement of the companies, before the reorganization ? A. Yes, and the settlement for these assets amounted to $8,512,560.

MR. BALLANTYNE: Just a minute, how much was the settlement ? A. The settlement was $8,512,560. That makes the difference.

Q. Or a total of $41,879,357.08; now, these are the charges in the books of these accounts ? A. According to the statement that has been rendered by the company.

Q. According to the statement that has been rendered to you by the company ? A. The question was did not cover this whole period so I had to put a different statement.

Q. But what you have got, these figures, they are from the company ? A. Yes.

Q. Then, you deduct excess of book value over purchase price of capital assets taken over from predecessor companies $2,191,081.37; where do you get that figure ? A. That is the total fixed assets taken over, or the total assets taken over by the company from the four predecessor companies whose balance sheets were submitted. The Montmorency Cotton Mills Company, the Colonial Bleaching and Printing Company, the Dominion Cotton Mills Company and the Montmorenta Cotton Company were valued on the statements here at $10,784,291.72, and the settlement --

Q. You say valued on the statements here; you are referring to Exhibit No.-- A. 945.

Q. Yes, that is the last statement, the last annual statement of the companies, before the reconstruction ? A. Yes, and the settlement for those assets amounted to $8,312,560.

MR. BILLINGTON: Just a minute, how much was the settlement ? A. The settlement was $8,312,560. That

BY MR. McRUER: Q. That accounts for the $2,191,261.37. Then there was a transfer from goodwill account to fixed assets -- A. No, that does not quite account for it. There was an item of $80,470.35 which the company for some reason did not include in the value of these assets taken over when they set them up on their books. I could not find the reason. So they set it up on their books at $2,191,261.37, on this statement that was supplied to me, whereas the difference, as I find it, between the purchase price of the fixed assets and the value was $2,271,731. There is that slight difference.

Q. Well, a few million dollars, that does not get us much one way or the other. Then, we come to the next item, transfer from goodwill account to fixed assets account of $3,563,109.91; what is that ? A. The company transferred the balance of the goodwill account into their plant account.

Q. They carried that on their books as goodwill account and then transferred it into plant account ? A. Yes, after charging off in relation to these items that appear in the $2,191,000., $1,903,169.95, $1,330,000. to the goodwill account and $583,000., I think it was, to contingent reserves so the goodwill account was reduced from the amount on the books by charging off part of this preceding amount to goodwill.

Q. I see ? A. In the first place they had set it up as an asset --

Q. At a larger amount -- A. At a larger amount than they paid for it. Then they charged it off again

BY MR. MCNAB: Q. That accounts for the $2,191,261.57. Then there was a transfer from good
that does not quite account for it. There was an i
of $30,490.85 which the company for some reason did
not include in the value of these assets taken over
when they set them up on their books. I could not
find the reason. So they set it up on their books
$2,191,261.57, on this statement that was supplied t
me, whereas the difference, as I find it, between the
purchase price of the fixed assets and the value was
$2,271,751. There is that slight difference.

Q. Well, a few million dollars, that does not
get us much one way or the other. Then, we come to
next item, transfer from goodwill account to fixed
assets account of $3,863,109.01; what is that ?

A. The company transferred the balance of the goodwi
account into their plant account.

Q. They carried that on their books as goodwill
account and then transferred it into plant account ?

A. Yes, after charging off in relation to these
items that appear in the $3,191,000., $1,803,180.83,
$1,380,000. to the goodwill account and $883,000.,
think it was, to continuent reserves so the goodwill
account was reduced from the amount on the books by

Q. I see ? A. In the first place they
set it up as an asset --

goodwill to the extent of $1,339,000., I think was the amount and a further balance of $580,000. to some reserve accounts, further reserve accounts.

Q. This was the balance in the goodwill account and it was transferred to plant account ? A. Yes.

Q. Therefore not being cost of plant you take it out again ? A. Yes.

Q. Then there was the appraisal write-up of 1923 which you mentioned yesterday of $7,500.--
A. $7,500,000.

Q. $7,500,000.; so that you deduct from the amounts charged in the books for plant and machinery the sum of $13,254,371.28 leaving the net actual cost according to your calculation of $28,424,855.78 ?
A. Yes, sir.

Q. Then, over the period of years the company has written off from profits how much for depreciation ?
A. $19,865,990.66.

Q. And to repairs account ? A. That was not repairs, It was an item of plant charged to repairs account and then finally transferred to profit and loss account, $1,055,886.14.

Q. You say that was plant charged to repairs ?
A. Yes, and then finally charged to profit and loss.

Q. Then, finally taken out of profit and loss, all right; then, the profit and loss account --
A. $1,983,434.61 charged direct to profit and loss account.

Q. That is for -- A. Plant.

Q. For plant and equipment ? A. Yes.

account and a further balance of $300,000. in parti-
cularly accounts, further enquiries.

A. This was the balance in the pooling account
and it was transferred to plant account ? A. Yes.

Q. Therefore not being cost of plant you take it
out again ? A. Yes.

Q. Then there was the appraisal written-up of
1929 which you mentioned yesterday of $7,000,---

A. $7,000,000.

Q. $7,000,000.; so that you deduct from the
amounts charged in the books for plant and machinery
the sum of $13,044,071.38 leaving the net actual cost
according to your calculation of $40,444,000.76 ?

A. Yes, sir.

Q. Then, over the period of years the company has
written off from profits how much for depreciation ?

A. $18,305,950.80.

Q. And to replace account ? A. That was a
reserve. It was an item of plant charged to capital
account and then finally transferred to profit and
loss account, $1,000,000.16.

Q. You say that was a sum charged to reserve ?

A. Yes, and then finally charged to profit and loss.

Q. Then, finally taken out of profit and loss,
all right; then, the profit and loss account --

A. $1,000,434.01 charged direct to profit and loss
account.

Q. That is the ---- A. Plant.

Q. Then, welfare account ? A. There was $38,159.68 charged off to the welfare account which had been set up out of profits prior to that time.

THE COMMISSIONER: What does that mean ?

BY MR.McRUER: Q. What do you mean by charging it off to the welfare account ? A. They had this balance in the welfare account and they just charged it off to the welfare account.

BY THE COMMISSIONER: Q. What is the welfare account ? A. I don't know what it was. It was an account set up on the books that created a balance and they wrote this off to the welfare account instead of charging it off to profit and loss account.

BY MR.McRUER: Q. What I want to get at is when say they wrote it off how does it get into plant and machinery ? A. It was in plant and machinery and they wrote off plant and machinery to the welfare account. They credited plant and machinery and charged to the welfare account.

Q. It was really a transfer from welfare to plant and machinery ? A. No, a transfer from plant and machinery to welfare.

Q. And then to profit and loss ? A. The profit and loss had already been charged for the welfare. The welfare account had been set up out of profit and loss.

Q. Well, according to the books that had been charged to profit and loss account to be used for plant and machinery ? A. Yes.

Q. That is what the books would show ? A. Yes,

$55,189.68 charged off to the welfare account which had been set up out of profits prior to that time.

THE COMMISSIONER: What does that mean?

BY MR. [illegible]: Q. What do you mean by charging it off to the welfare account? A. They had the balance in the welfare account and they just charged it off to the welfare account.

BY THE COMMISSIONER: Q. What is the welfare account? A. I don't know what it was. It was an account set up on the books that created a balance and they wrote this off to the welfare account instead of charging it off to profit and loss account.

BY MR. [illegible]: Q. What I want to get at is when they wrote it off how does it get into plant and machinery? A. It was in plant and machinery and they wrote off plant and machinery to the welfare account. They credited plant and machinery and charged to the welfare account.

Q. It was really a transfer from welfare to plant and machinery? A. No, a transfer from plant and machinery to welfare.

Q. And then to profit and loss? A. The profit and loss had already been charged for the welfare. The welfare account had been set up out of profit and loss.

Q. Really, according to the books that had been charged to profit and loss account to be used for plant and machinery? A. Yes.

It indirectly gets into profit and loss account.

Q. I see, but if the books be true the money that was spent on plant and machinery was taken from the welfare account ? A. No.

BY THE COMMISSIONER: Q. The welfare account was taken out of profit and loss ? A. The money had already been charged -- the money had already been spent for the plant and charged to plant. They wrote off part of this plant to this welfare account which had been set up out of profits previously.

MR.McRUER: Well, it amounted to the same thing as if they had taken so much from welfare and charged to depreciation.

BY THE COMMISSIONER: Q. Or so much from profits? A. Yes.

Q. It comes back to your profits ? A. It is just an indirect way. It is really a profit and loss charge. It is just put here to identify it.

Q. All these items you have given as write-offs, they all come out of profit ? A. All of them with the exception of the contingent reserve item.

BY MR.McRUER: Q. Where did that come from ? A. That came out of the reserves taken over from the old companies.

Q. By the old companies ? A. From the old companies.

Q. Although it may not have been profits of this company it would be very likely profits of the old companies ? A. Yes, of the preceding companies, reserve set up out of profits.

it ultimately goes into profit and loss account.

A. I see, but if the books be true the money

the welfare account ? A. No.

BY THE COMMISSIONER: Q. The welfare account was

taken out of profit and loss ? A. The money had

already been charged -- the money had already been

spent for the plant and charged to plant. They wrote

off part of this plant to this welfare account which

had been set up out of profits previously.

MR.HOWSON: Well, it amounted to the same thing

as if they had taken so much from welfare and charged

to depreciation.

BY THE COMMISSIONER: Q. Or so much from profits ?

A. Yes.

Q. It comes back to your profits ? A. It

is just an indirect way. It is really a profit and

loss charge. It is just put here to identify it.

Q. All these items you have given as write-offs,

with the exception of the equipment reserve item.

BY MR.MCKUEN: Q. Where did that come from ?

A. That came out of the reserves taken over from the

old companies.

Q. By the old companies ? A. From the

old accounts.

Q. Although it may not have been applied to that

purpose it would be very likely possible, if the

equipment ? A. Yes, of the operating companies.

Q. They would be reserves that were existant and alive at the time the old companies were taken over by the new company ? A. Yes.

Q. So that the total amount so written off over the period of years amounts to $23,506,950.95 ? A. Yes, sir.

Q. Leaving according to their books a value in the assets of $4,917,904.83 ? A. Not according to the books, according to this calculation based on the books.

Q. According to the books after these adjustments have been made ? A. That is correct.

Q. And the particular adjustments that we have reference to are the deductions you made for the write up on the appraisal, the transfer to goodwill, and the excess of book value over capital assets ? A. Yes, sir.

Q. Now, after taking depreciation, for instance, of $19,965,990. we find that according to the insurance appraisal made in 1936 the assets still have the value of $22,183,000.? A. Yes, approximately.

Q. And when you take that figure as a basis you are taking it on bricks, mortar, machinery and everything else as valued for insurance purposes ? A. Yes, and adjusted in accordance with this statement.

Q. Yes, with the adjustments, the additions and sub-structures and land which, of course, did not come into the insurance appraisal; they do not appraise the sub-structure or the land for the purpose of insurance? A. No.

Q. They would be reserves that were outstanding and alive at the time the old companies were taken over by the new company?

A. Yes.

Q. So that the total amount so written off over the period of years amounts to $86,806,360.95?

A. Yes, sir.

Q. Leaving according to their books a value in the assets of $4,417,264.83?

A. Not according to the books, according to this calculation based on the books.

Q. According to the books after these adjustments have been made?

A. That is correct.

Q. And the particular adjustments that we have reference to are the deductions you made for the profits up on the appraisal, the transfer to goodwill, and the excess of book value over capital assets?

A. Yes, sir.

Q. Now, after taking depreciation, for instance, appraisal made in 1936 the assets still have the value of $22,188,000.?

A. Yes, approximately.

Q. And when you take that figure as a basis you are taking it on bricks, mortar, machinery and everything else as valued for insurance purposes?

A. Yes, and adjusted in accordance with this statement.

Q. Yes, with the adjustments, the additions and sub-structures and land which, of course, did not come into the appraisal; they do not appraise the sub-structure or the land for the purpose of insurance?

Q. And they do not come into this insurance appraisal ? A. No.

Q. And to get your basis for the land you take the appraisal of 1920 they had used for the purpose of this basis for the inflation ? A. Yes sir.

Q. And if land in the city of Montreal and thereabouts has increased in value since 1920 the company has the benefit of all that in your method of calculating this ? A. Yes.

Q. Now then, we go to page seven, which is a summary of operations. You deal with the whole of the common stock there, that is, the original issue and the subsequent issues ? A. On the cash basis.

Q. On the cash basis, that there was $6,275,--

THE COMMISSIONER: 375.

MR.McRUER: I beg your pardon, $6,375,000. paid in ? A. Yes.

Q. Of that sum or as against that sum there is outstanding at the present time how much common stock ? A. Do you want the number of shares or the book value?

Q. The number of shares ? A. 225,000-- was it 225,000 or 275,000 ?

MR. BALLANTYNE: 225,000 is right.

THE WITNESS: 225,000 shares.

BY MR.McRUER: Q. Yes; of that 225,000 shares five-ninths would be issued as against the original investment of $500,000 ? A. Yes.

Q. Five-ninths is how much ? A. Five-ninths is a rough percentage. It is not exactly correct.

Q. Well, it is pretty close to correct, anyway.

Q. And they do not come into this insurance ap-
praisal ? A. No.

Q. And to get your basis for the land you take
the appraisal of 1920 they had used for the purpose of
this basis for the inflation ? A. Yes sir.

Q. Now if land in the city of Montreal and there-
abouts has increased in value since 1920 the company
has the benefit of all that in your method of calcu-
lating this ? A. Yes.

Q. Now then, we refer page seven, which is a sum-
mary of operations. You deal with the whole of the
common stock there, that is; the original issue and the

Q. On the cash basis, that there was $6,275,---

MR.McMICH: I beg your pardon, $6,875,000. paid
in ? A. Yes.

Q. Of that sum or as against that sum there is
outstanding at the present time how much common stock ?
A. Do you want the number of shares or the book value?
Q. The number of shares ? A. 285,000---
is it 525,000 or 275,000 ?

MR. MILLWARD: 525,000 is right.

BY MR.McMURR: Q. Yes; of that 525,000 shares
five-ninths would be issued as against the original
investment of $300,000 ? A. Yes.

A. Yes, I think the shares would be 136,000, wouldn't they ?

Q. I just want to get that figure for our record ? A. 150,000 shares of the 225,000.

Q. Now, of the $6,375,000., $5,875,000. would be invested by -- we might call them subsequent investors and $500,000. by the original investors ? A. In common stock.

Q. In common stock, yes, that is what I am at, but the people who invested the $5,875,000. got for their investment 75,000 shares but those that invested $500,000. originally got the equivalent of 150,000 shares. Now then, on this statement you go on and analyze the earnings applicable to common stock and you make allowance for the appraisal and it shows the approximate profits earned during the period on common stock to be $45,952,521.33 ? A. 581.

Q. $45,952,581.33 ? A. Yes sir.

Q. And you have a memo re depreciation and repair charges. During the period from 1905 to 1936 the repair charges -- the depreciation and repair charges amount to $35,435,658.01 ? A. Yes, sir.

Q. Mr. Heward suggests on the figure for the number of shares now outstanding as against the original issue, the original investment of $500,000.--

MR. HEWARD: I don't suggest that. I suggest that five-ninths of 225,000 is not 150,000.

MR. McRUER: It should be 125,000, not 150,000. Our arithmetic is out. Now, just referring to pages

7 and 8 again the actual cost of the plant and machinery after you have made your adjustments as against the appraisal write-up, the transfer to good-will and the excess of bock values, is shown to be $28,424,855.78 ? A. Yes sir.

Q. On that actual cost the total amount charged to repairs and depreciation as per page 7 appears to be $35,435,000.? A. Right.

Q. And according to the insurance appraisal after additions have been made for land and sub-structures it is still worth $22,183,633. ? A. Yes, on that basis.

Q. So it would rather look as though my suggestion that depreciation is excessive sometimes has got some foundation. Now, I want to give some attention now to the eventful year -- to an eventful year in this company's history, the year 1933.

THE COMMISSIONER: We will defer that pleasure for a few minutes.

-- The Commission adjourned for a short recess.

Page 12685 follows.

ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
TORONTO - CANADA

Q. Now, in reference to the operations of this Company, particularly during the years 1933, 1934, 1935 and 1936, we have been told in the evidence that the Company made a general reduction in wages in April 1933, that varied from 15% at least down to something less, and Mr. Gordon said it worked out on an average of about 10% but it was not a straight 10% reduction. Now, the fiscal year of the Company ends on the 31st of March, does not it? A. Yes, sir.

Q. So that the years dealt with in your statements - 1933, for instance - would be the year 1932 from the 1st of April on and the year 1933 up to the 31st of March? A. Nine months in 1932 and three months in 1933.

Q. Let us look at these statements for a moment, page 11 in Exhibit 917 first, in reference to the profits that the company had during these periods. First I am dealing with memo, "re profits"? A. Yes.

Q. Now, if the wage reduction was made in April, 1933, the year's operations covering that period would be shown under the heading 1934? A. If the reduction was made after April 1st.

Q. Well, it was in April, 1933? A. Yes.

Q. So that the year's operations for 1934 would be the first one to look at to reflect the profits of the Company after the reduction. The gross profits before depreciation was what percentage of sales in 1934? A. 21.3.

Q. In 1933 it had been what? A. 13.2.

ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
TORONTO - CANADA

Q. Now, in reference to the operations of this company, particularly during the years 1938, 1939, 1936 and 1935, we have been told in the evidence that the company made a general reduction in wages in April, 1937, that varied from 10% at least down to somewhere less, and Mr. Gordon said it worked out on an average of about 10% but it was not a straight 10% reduction. Now, the fiscal year of the company ends on the 31st of March, does not it? A. Yes, sir.

Q. So that the years result in your statements 1938, for instance - would be the year 1937 from the 1st of April on and the year 1939 up to the 31st of March? A. Nine months in 1937 and three months in 1938.

Q. Let us look at those statements for a moment, page 11 in Exhibit 917 first, in reference to the profits that the company had during these periods. First I am dealing with 1935, "Profits"? A. Yes.

Q. Now, if the wage reduction was made in April, 1937, the year's operations covering that period would be shown under the heading 1938? A. If the returns were made after April 1st,

Q. Well, it was in April, 1937? A. Yes.

Q. So that the year's operations for 1938 would be the first one to look at to reflect the profits of the company after the reduction. The gross profits [illegible] was the 4 percentage of sales in

Q. In 1932? A. 11.3%.

Q. In 1931? A. 15%.

Q. In 1930? A. 16.9 %.

Q. In 1929? A. 16.2 %.

Q. In 1928? A. 16.8 %.

Q. So that in the year in which wages were reduced the gross profits was at the highest point it had been since 1927 - that is correct, is not it?

THE COMMISSIONER: Q. It was higher than it was in 1920? A. Yes.

THE COMMISSIONER: It is the highest of any year in the whole scale.

MR. McRUER: Q. That is the gross profits before depreciation. Now, the gross profits after depreciation in 1934 was what? A. 14½%.

Q. And that is on sales, of course? A. Yes, on the same basis.

Q. And the net profits after depreciation in 1933? A. 7½%.

Q. In 1932? A. 11.6%.

Q. In 1931? A. 10.6%.

Q. In 1930? A. 10.9%.

Q. In 1929? A. 10.9%.

Q. In 1928? A. 11.2%.

Q. In 1927? A. 15½%.

Q. So that it was at the highest point it had been after 1927? A. Yes.

MR. GEOFFRION: Do not you think 1933 is more material to this question?

ROBT. BRYDIE
DARLING

Q. In 1928? A. 16.2%.

Q. In 1929? A. 18%.

Q. In 1930? A. 16.9 %.

Q. In 1931? A. 16.2 %.

Q. In 1932? A. 14.4 %.

Q. So that in the year in which wages were reduced the gross profits was at the highest point it had been since 1927 - that is correct, is not it?

THE COMMISSIONER: A. It was higher than it was in 1926?

A. Yes.

THE COMMISSIONER: It is the highest of any year in the whole scale.

MR. MORGAN: Q. That is the gross profits before depreciation. Now, the gross profits after depreciation in 1928 was what?

A. 11.8%.

Q. And that is on sales, of course? A. Yes, on the same basis.

Q. And the net profits after depreciation in 1932?

A. 7%.

Q. In 1932? A. 11.8%.

Q. In 1931? A. 10.8%.

Q. In 1930? A. 12.6%.

Q. In 1929? A. 10.8%.

Q. In 1928? A. 11.8%.

Q. In 1927? A. 12%.

Q. Do that it was at the highest point it had

MR. McRUER: No, because I am dealing with the year in which you reduced the wages.

MR. GEOFFRION: We reduced on the wages on what we knew.

MR. McRUER: You did not restore on the basis of what you found out afterwards. I am going to deal with how you reduced your profits in a moment. We have 1933, we have the whole picture. I will put it all in.

Q. Then we come to the net trading profits available for disposition, percentage of sales. Now, this is the net trading profit in 1934? A. 11.7%.

Q. In 1933? A. 3.8%.

Q. In 1932? A. 8.6%.

Q. In 1931? A. 7.4%.

Q. In 1930? A. 8.5%.

Q. In 1929? A. 8.6%.

Q. In 1928? A. 8.8%.

Q. In 1927? A. 13.3%.

Q. So, again, the net trading profit available for disposition in 1934 was higher than it had been at any time after the year 1927.

Q. Now, I notice that there was a decline in interest on outside investments - that is, investments of the company not engaged in the capital operations of the company, between 1931 and 1934 amounting to about $280,000? A. Yes, sir, one was $721,952.43, in 1931, and $444,571.32 ~~and that~~ in 1934.

MR. MORGUNN: No, because I am dealing with the
year in which you reduced the wages.

MR. CHAIRMAN: We reduced on the wages or what
we know.

MR. MORGUNN: You did not reduce on the basis of
what you found out afterwards. I am going to deal
with how you reduced your profits in a moment. So
have 1930, we have the whole picture. I will put it
all in.

Q. Then we come to the net trading profits available
for disposition, percentage of sales. Now, this is
the net trading profit in 1929?

A. 11.7%.

Q. In 1928?

A. 6.9%.

Q. In 1931?

A. 7.9%.

Q. In 1930?

A. 8.5%.

Q. In 1927?

A. 8.6%.

Q. In 1926?

A. 8.9%.

Q. In 1925?

A. 15.3%.

Q. So, again, the net trading profit available for
disposition in 1934 was higher than it had been at any
time after the year 1927.

Q. Now, I notice that there was a decline in
interest on outside investments - that is, investments
of the company not engaged in the capital operations
of the company, between 1931 and 1934 amounting to
about $280,000?

A. Yes, sir, one was $721,282.42

Q. So that income on their investments had declined by about 33%? A. Yes, a little more than 33%, about 40%.

Q. But their net profits on sales in 1934 in the business of this Company was at a higher percentage than it had been since 1927. Well then, we will deal with this matter on another basis. Go to page 13 of this Exhibit and let us deal with it on the basis of the net revenue from trading applicable to common stock, to common share equities employed in operations. Now, that is the percentage of profits taken on the amount of capital employed in operations? A. Yes, sir, as made up on the previous page.

Q. Yes, that is after you have taken out good will and all other inflations of that sort? A. Yes.

Q. Now, the percentage of net revenue to capital employed in 1934 amounted to what percent? A. 42%. That is net revenue from trading.

Q. Yes, I am leaving out of consideration the revenue from their investments in other enterprises. The year 1933? A. There was no net revenue.

Q. There had been? A. The trading profits were more than taken up by the bond interest and preferred stock dividends.

THE COMMISSIONER: Q. What were the dividends paid? A. The preferred stock dividends,- they were $135,842.

Q. Were there no common dividends? A. Yes.

Q. I say, where were they taken from? A. From

Q. So that income on their investments had decl-

[illegible] Q. Yes, a little more than 10%,

about 10%.

Q. But their net profits on sales in 1924 in the business of this Company was at a higher percentage than it had been since 1917. Well then, we will deal with this matter on another basis. Go to page 15 of this Exhibit and let us deal with it on the basis of the net income from trading [illegible]

to common share equities employed in operations.

Now, what is the percentage of profits taken on the amount of capital employed in operations? A. Yes, as made up on the previous page.

Q. 1917, that is after the bond taxes and good will and all other inflations of that sort? A. Yes.

Q. Now, the percentage of net revenue to capital employed in 1923 amounted to what percent? A. 42%. That is net revenue from trading.

Q. Yes, I am leaving out of consideration the revenue from their investments in other enterprises.

The year 1917? A. There was no net revenue.

Q. There had been? A. The trading profits were more than taken up by the bond interest and [illegible]

THE COMMISSIONER: Q. What were the dividends paid?

A. The preferred stock dividends - they were [illegible]

Q. Was there no common dividends? A. Yes.

accumulated surplus.

MR. McRUER: I am going to deal with it on the basis of payments to holders of common stock later.

THE COMMISSIONER: Yes, because you see they kept them right up, kept them right up to this year, including this year.

MR. McRUER: I am going to deal with that aspect of it in a few moments. At the moment I am dealing with the trading operations.

Q. Now, in 1932 the percentage of net profits to common stock equity was how much? A. 20.3%.

Q. In 1931? A. 11.6%.

Q. In 1930? A. 16.2%.

Q. In 1929? A. 14.9%.

Q. In 1928? A. 17.6%.

Q. In 1927? A. 31.3%.

Q. So that in 1934, the year that the wage reduction was put into effect and maintained throughout the year, the percentage of net revenue to common share equity was at the high point that it was for the whole ten-year period? A. Yes, sir.

Q. And not only at the high point but twice as high as it was in 1932, almost four times as high as 1931, three times - not quite three times - as high as 1930. Three times as 1929 and over twice as high as in 1928 and a third higher than 1927. Now, an interesting thing is a comparison with the next line in 1934. The percentage of total net revenue to common share equity is shown in the last line? A. Yes, sir.

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accumulated surplus.

MR. MONDEN: I am going to deal with it on the basi

[illegible] in January of [illegible] three times.

THE CHAIRMAN: Yes, because you see they kept

them right up, kept them right up to this year, includ-

ing this year.

MR. MONDEN: I am going to deal with that aspect

of it in a few moments. At the moment I am dealing

with the trading operations.

Q. Now, in 1933 the percentage of net profits to

common stock equity was how much? A. 80.8%.

Q. In 1931? A. 11.8%.

Q. In 1930? A. 14.4%.

Q. In 1929? A. 31.3%.

Q. In 1928? A. Yes, 11%.

was put into effect and maintained throughout the year,

the percentage of net revenue to common share equity

was at the high point that it was for the whole ten-

year period.

Q. And not only at the high point but twice as high

as it was in 1933, almost four times as high as 1931,

three times - not quite three times - as high as 1930,

[illegible] as 1929 and over twice as high as in 1928

and a third higher than 1927. Now, an interesting

thing is a comparison with the next line in 1934.

Q. That is, after taking into c nsideration the return on the outside investment? A. Yes, and also taking into consideration the payment of income taxes.

Q. I wonder how much the interest in outside investments reduces the percentage of return and how much it is reduced by income tax? A. Well, we can figure that out on the basis of total net income.

Q. I would just like you to make a note to figure that out because it appears to me that the return got from outside investments was very much less than the return on the common stock equity in the company itself.

A. That is in relation to outside investments ---

Q. In relation to investments in outside investments- the return they got on the investments outside the company was very much greater than they got inside the Company ---

THE COMMISSIONER: That is shown here.

THE WITNESS: The point I am making there is that the income tax is deducted, this figure is after the income is deducted.

Q. From the whole thing? A. Yes. Mr. McRuer is asking me now for total net income.

MR. McRUER: I would like to get a return on the capital invested outside and capital invested inside throughout the depression to see how this company was comparing in the depression with other corporations that they saw fit to invest in.

THE COMMISSIONER: That they had seen fit to invest in?

Q. That is, after taking into consideration the return on the outside investment? A. Yes, and also taking in to consideration the payment of income taxes.

Q. I wonder how much the interest in outside investments reduces the percentage of return and how much it is reduced by income tax? A. Well, we can figure that out on the basis of total net income.

Q. I would just like you to make a note to figure that out because it appears to me that the return got from outside investments was very much less than the return on the common stock equity in the company itself.

A. That is in relation to outside investments ---

Q. In relation to investments in outside investments the return they got on the investments outside the company was very much greater than they got inside the company ---

[illegible]: That is quite true.

THE WITNESS: The point I am making there is that the income tax is deducted, this figure is after the income is deducted.

Q. From the whole thing? A. Yes. Mr. Mosher is asking me now for total net income.

MR. MOSHER: I would like to get a return on the capital invested outside and capital invested inside throughout the [illegible] to see how this company was [illegible] in the expression of [illegible] [illegible] [illegible].

MR. McRUER: Yes.

Q. Now, come back to the subject of dividends - not an unpleasant one. I will take the fiscal year 1933 - the dividends paid on preferred stock amounted to how much? A. $135,842.

Q. On common stock? A. $1,282,500.

Q. And during that year you told me a little while ago that the percentage of return attributable to the original investment of $500,000 was 142½%? A. That is the dividends?

Q. Yes. Then in the year 1934 the dividend paid on common stock amounted to how much? A. $1,080,000.

Q. And on the preferred stock? A. $135,842.00.

Q. Or in this year in which the wages were reduced a dividend was maintained on the stock issued as against original investment of $500,000 at the rate of 120%, - that is correct? A. Yes.

MR. GEOFFRION: Pardon me, what is it?

MR. McRUER: The dividend on the original shares issued for the original investment of $500,000 was 120% in the year they reduced their wages.

MR. GEOFFRION: On that basis, yes.

MR. McRUER: Well, there is nothing wrong on that basis. I have the best authority in Canada on it.

MR. GEOFFRION: Oh, no.

MR. McRUER: Q. And in the year 1935 - when was the 4% increase? Well, in the statement of 1935 4½% of the wage cut was restored. It was a 5%increase,

Q. Now, come back to the subject of dividends - not an unpleasant one. I will take the fiscal year 1933 - the dividends paid on preferred stock amounted how much? A. $130,000.

Q. On common stock? A. $1,282,800.

Q. And during that year you told me a little while ago that the percentage of return attributable to the original investment of $500,000 was 185%? A. That is the dividends?

Q. Yes. Then in the year 1934 the dividend paid on common stock amounted to how much? A. $1,000,00

Q. And on the preferred stock? A. $130,000.00

Q. Or in this year in which the wages were reduced a dividend was maintained on the stock issued as equal original investment of $500,000 at the rate of 180%, that is correct? A. Yes.

MR. GROSSMAN: Pardon me, what is it?

issued for the original investment of $500,000 was

MR. MORGEN: Well, there is nothing wrong on that basis. I have the best authority in Canada on it.

MR. GROSSMAN: Oh, no.

MR. MORGEN: Q. And in the year 1935 - when was the 4% increase? Well, in the statement of 1935 4%

that would be restoration of 4½% and that is all that has been restored so far. That would be in the fiscal year 1935. In the fiscal year of 1935 the common stock dividend was increased by how much?

A. Was increased by $270,000.

Q. So that it was put back where it had been before? A. Yes, sir.

Q. And the rate of dividend on the stock issued as against the original investment of $500,000 was 150%. There had been a slight cut in the common dividends paid in 1932 and 1933. There was 100% restoration of the common dividend - that is correct? A. Yes.

Q. But the cut in the wages was only restored by 45%?

THE COMMISSIONER: 45%, is that right? It was a 10% cut.

MR. McRUER: Yes, and then they gave a 5% increase. There is 5½% on their wages still not being paid on the basis on which they were paid before.

Q. Now, there is one matter that I do not believe I cleared up, and I probably should have dealt with first thing this morning, that we were dealing with yesterday, and that was the depreciation that had been charged up to 1933 when the appraisal was made and the books were written up to the extent of $7,500,000, or the value of the plant rather was written up to the extent of $7,500,000.

that would be restoration of 4½% and that is all what has been restored so far. That would be in the fiscal year 1953. In the fiscal year of 1952 the common stock dividend was increased by how much? was increased by $270,000.

Q. So that it was put back where it had been before?

A. Yes, sir.

Q. And the rate of dividend on the stock issued as against the original investment of $600,000 was 15%. There had been a slight cut in the common dividends paid in 1952 and 1953. There was 10% restoration of the common dividend - that is correct?

A. Yes.

Q. But the cut in the wages was only restored by 6%?

THE CHAIRMAN: 4½, is that right? It was a 10% cut.

MR. McDONALD: Yes, and then they gave a 5% increase. There is 5% on their wages still not being paid on the basis on which they were paid before.

Now, there is one matter that I do not believe I cleared up, and I probably should have dealt with first thing this morning, that we were dealing with yesterday, and that was the depreciation that had been charged up to 1953 when the appraisal was made and the books were written up to the extent of $7,500,000, or the value of the plant further was written up to

THE COMMISSIONER: Are you going to go into the whole question of depreciation now?

MR. McRUER: I was going to go into this one, now. It will take a lot of time.

THE COMMISSIONER: Well, we had better adjourn.

-- The Commission adjourned at 12.30 A.M. to resume at 2.15 P.M.

A F T E R N O O N S E S S I O N

The Commission resumed at 2.15 p.m.

G. BLAIR GORDON, Recalled

EXAMINED BY MR. McRUER:

Q. Mr. Gordon, a few days ago in Montreal I examined you very shortly in regard to what inventory reserves the Dominion Textile Company had, and at that time we left the matter in somewhat indefinite shape. In the first place you mentioned one specific reserve. That is I think shown on your books, and I just want to run over that one for a moment in order that I may understand it more clearly than I did at that time. You know what I am referring to? A. I referred to two. I presume you are referring to one of those two.

Q. Yes, I may have confused them. In the first place you referred to one from which a transfer was made to investment reserve. A. Yes, that is right.

BY THE COMMISSIONER: Q. Is that particular reserve called Inventory Reserve? Is that the name you give it? A. It is called a reserve against raw cotton.

Q. Reserve against raw cotton?

BY MR. McRUER: Q. We will deal with that one which is called a reserve against raw cotton. When was it first set up? A. Well, it was set up, I could not tellyou exactly when, Mr. McRuer.

The Commission resumed at 2.15 p.m.

G. HALL Cowan, Recalled

FURTHER BY MR. MORAN:

Q. Mr. Cowan, a few days ago in your testimony I examined you very minutely in regard to what inventory reserve the Dominion Textile Company had, and at that time we left the matter in a somewhat indefinite shape. In the first place you mentioned one specific reserve. That is I think shown on your books, and I just want to run over that one for a moment in order that I may understand it more clearly than I did at that time. You know what I am referring to? A. I referred to two. I presume you are referring to one of those two.

Q. Yes, I may have confused them. In the first place you referred to one from which a transfer was made to investment reserve. A. Yes, that is right.

By the Commissioner: Q. Is that particular reserve called Inventory Reserve? In that the name you give it? A. It is called a reserve against raw cotton.

Q. Reserve against raw cotton?

By Mr. Moran: Q. We will deal with that one which is called a reserve against raw cotton. When was it first set up? A. Well, it was set

It was carried at $1,500,000 from some time I think prior to 1916 up to 1931. It shows exactly in Mr. Howson's statement.

Q. We just want to get it all accurately on the record now. A. I can give you the details.

Q. All right. A. The first reserve set up against raw cotton was in 1911, when in the year ending March 31, we show $500,000 set up against raw cotton.

BY THE COMMISSIONER: Q. I am assuming these annual amounts were taken out of profits and put into this reserve. Is that right? A. I could not tell you, sir, from this document, just whether they were taken out of profits or surplus.

BY MR. McRUER: Q. Whether they came from profits or surplus they would come out of profits.

THE COMMISSIONER: It would not be the annual profits though.

THE WITNESS: They may not have been charged to profit and loss account at all. If they were charged to surplus account, it would not be taken from the year's operations.

THE COMMISSIONER: No. It would be out of the accumulated fund. That had better be ascertained.

BY MR. McRUER: Q. Yes, I think we should have that. A. You get that condition exactly in recent years, in 1933.

Q. Well, we will deal with 1933 when we come to it. Just let us get the history of it, and then

it was carried at $1,500,000 from some time I think prior to 1916 up to 1931. It shows exactly in Mr. Lowden's statement.

Q. We just want to get it all accurately on the record now. A. I can give you the details.

Q. All right. A. The first reserve set up against bad debts was in 1911, when the year ending March 31, we show $500,000 set up against raw cotton.

BY MR. [illegible]: Q. I am assuming these amounts account were taken out of profits and put into this reserve. Is that right? A. I could not tell you, sir, from this document, just whether they were taken out of profits or surplus.

BY MR. McRUER: Q. Whether they came from profits or surplus they would come out of profits.

THE COMMISSIONER: It would not be the same profits though.

THE WITNESS: They may not have been charged to profit and loss account at all. If they were charged to surplus account, it would not be taken from the year's operations.

THE COMMISSIONER: No. It would be out of the accumulated fund. That had better be accounted.

BY MR. McRUER: Q. Yes, I think we should have that. A. You get the condition exactly in recent years, in 1929.

Q. Well, we will deal with 1929 when we come to it. Just let us get the history of it, and then

we will add to that where the funds came from each year. A. Yes.

Q. We start off with 1911? A. Yes.

Q. What happened in 1911? A. The $500,000 was set up in that reserve. Then in 1912, $200,000 was added. Then in 1913, $300,000 was added, which brought it up at that point to $1,000,000. Then in 1919, $500,000 was added, and in 1922, $500,000 was added, and there is a cross entry of $500,000 out in 1914.

Q. So in 1922 it amounted to how much? A. $1,500,000.

Q. $1,500,000? A. Yes, and that carries on at $1,500,000 up to --

BY THE COMMISSIONER: Q. In what years was there nothing in the reserve? A. Well, before 1911.

Q. I mean afterwards. There seems to be a gap there. A. I will give it again. $500,000 was put in in 1911, $200,000 was added in 1912, $300,000 was added in 1913, bringing it up to $1,000,000. In 1914, $500,000 was taken out.

Q. And put where? A. It does not show.

Q. That left half a million. A. Yes, and $500,000 was putback in 1919.

Q. So there was a period between 1914 and 1919 when it was left at $1,000,000. A. $500,000 was put back in 1919, and $500,000 added in 1922, bringing it up to $1,500,000, and it stood there

we will add to that where the funds came from each year. A. Yes.

Q. We start off with 1911? A. Yes.

Q. What happened in 1911? A. The $500,000 was set up in the trust reserve. Then in 1912, $500,000 was added. Then in 1913, $500,000 was added, which brought it up at that point to $1,000,000. Then in 1919, $500,000 was added, and in 1922, $500,000 was added, and there is a gross entry of $500,000 out in 1914.

Q. So in 1924 it amounted to how much?

A. $1,500,000.

Q. $1,500,000? A. Yes, and that carries on at $1,500,000 up to --

BY THE CHAIRMAN: Q. In what years was there nothing in the reserve? A. Well, before 1911.

Q. I mean afterwards. There seems to be a [illegible].

$500,000 was put in in 1911, $500,000 was added in 1913, $500,000 was added in 1914, bringing it up to $1,000,000. In 1914, $500,000 was taken out.

Q. And put where? A. It does not show.

Q. That left half a million. A. Yes, and $500,000 was put back in 1919.

Q. So there was a period between 1914 and 1919, when it was left at $1,000,000. A. $500,000 was put back in 1919, and $500,000 added in 1922.

until April 1, 1932, when $1,000,000 was transferred to the investment reserve. In 1936, in March past, $500,000 was taken from investment reserve and put back to this reserve.

Q. This reserve against raw cotton? A. Yes, leaving a net reserve of $1,000,000 against raw cotton.

BY MR. McRUER: Q. Of course, the $1,000,000 that was taken from the reserve against raw cotton and put to investment reserve was really transferred from the company's manufacturing operations to its investment operations. A. Yes, to put it that way. It was transferred from one reserve to another. It had nothing to do with operations.

Q. Your raw cotton had something to do with operations. Your investments had nothing to do with it. A. Yes, in that sense, if you want to make that distinction.

Q. So the total in reserve as against raw cotton today is $1,500,000. A. No, $1,000,000 today.

Q. Oh, $1,000,000, yes. Then you have another reserve in reference to inventory discounts, what do you call that? A. Well, we have not any name for it. There is in effect a deflation of inventory values created.

BY THE COMMISSIONER: Q. I want to make sure of this. We are getting now to the second reserve? A. Yes.

Q. And you told us at the beginning, you mentioned two reserves, in Montreal or here. A. In

until April 1, 1952, when $1,000,000 was transferred to the investment reserve. In 1936, in March past, $500,000 was taken from investment reserve and put back to this reserve.

Q. This reserve against raw cotton? A. Yes, leaving a net reserve of $1,000,000 against raw cotton.

BY MR. MACKAY: Q. Of course, the $1,000,000 that was taken from the reserve against raw cotton and put to investment reserve was really transferred from the company's manufacturing operations to its investment operations. A. Yes, to put it that way. It was transferred from one reserve to another. It had nothing to do with operations.

Q. Your raw cotton had something to do with operations. Your investments had nothing to do with it. A. Yes, in that sense, if you want to make that distinction.

Q. So the total in reserve as against raw cotton today is $1,500,000. A. No, $1,000,000 today.

Q. Oh, $1,000,000, yes. Then you have another reserve in reference to inventory discounts, what do you call that? A. Well, we have not any name for it. There is in effect a deflation of inventory values created.

BY THE COMMISSIONER: Q. I want to make sure of this. We are getting now to the second reserve? A. Yes.

Q. And you told us at the beginning, you men-

Montreal.

Q. We have dealt with one reserve, that is against raw cotton. A. The other reserve I mentioned in Montreal specifically was investment.

Q. Is that the one you are dealing with now? You are referring to the two you mentioned in Montreal. One was investment reserve and the other raw cotton. Now what is the third one?

MR. McRUER: I would like to name this one. If it has not had a name before we would like to christen it now.

THE WITNESS: I would say in effect there is created every year by our whole system of taking inventory some inflation or deflation in respect to market or cost, whichever is the lower.

BY MR. McRUER: Q. You say that there is some inflation or deflation. We will deal with it in the sense that it is a reserve. A. They are both in the same year, and whether the outcome is a net inflation or a net deflation depends upon a great number of factors entering into that particular year.

Q. Yes, I wanted to divide the question of inventory into the two aspects, one raw cotton, the other in the inventory, and the other in respect to the other aspect of it. I am trying to name the other aspect at the moment. A. The other aspect is process and manufactured goods. That is the other section of the inventory -- and supplies.

Montreal.

Q. We have dealt with one reserve, that is against raw cotton. A. The other reserve I mentioned in Montreal specifically was investment.

Q. Is that the one you are dealing with now? You are referring to the two you mentioned in Montreal. One was investment reserve and this other raw cotton. Now what is the third one?

MR. MCGUIRE: I would like to name this one. It is has not had a name before we would like to christen it now.

THE WITNESS: I would say in effect there is created every year by our whole system of valuing inventory some inflation or deflation in respect to market or cost, whichever is the lower.

BY MR. MCGUIRE: Q. You say that there is some inflation or deflation. We will deal with it in the sense that it is a reserve. A. They are both in the same year, and whether the outcome is a net inflation or a net deflation depends upon a great number of factors entering into that particular year.

Q. Yes, I wanted to divide the question of inventory into the two aspects, one raw cotton, the other is the inventory, and the other in respect to the other aspect of it. I am trying to name the other aspect at the moment. A. The other aspect is process and manufactured goods.

Q. Is that another addition of the inventory --

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CHARTERED STENOGRAPHIC REPORTER
TORONTO - CANADA

Q. Process and manufactured goods?

A. And supplies.

Q. And that is dealt with in two different ways. One in regard to the raw cotton that is in process, and manufactured goods, and the other certain discounts that are put on them.

A. The subdivision there, broadly, is between the goods in that inventory, which might be termed merchandise, whether in process or packed, and the supply accounts that consist of brushes, coal, oil and that all that goes into the mill operations.

Q. Well, I think maybe before we name this, we should get some information about it. This is a letter you sent to Mr. Howson, is it not, in respect to this matter? A. Yes.

THE COMMISSIONER: Are you putting it in?

MR. McRUER: It is in, my lord. It is Exhibit 945.

THE COMMISSIONER: It is a letter of October 30th.

MR. McRUER: Yes, my lord. It reads as follows:

"I am writing this letter to explain the delay in forwarding to you certain further information which has been promised. I must state that the Royal Commission has been sitting here all this week and, of necessity, a great part of my time has been spent either taking part in the proceedings or following them.

I am preparing the memo dealing with our

A. And supplies.

Q. And that is dealt with in two different ways. One is traced to the raw cotton that is in process, and manufactured goods, and the other certain documents that are put on them.

A. The subdivision there, broadly, is between the goods in the inventory, which might a trained merchandise, whether in process or raised, and the ... oil and that all that goes into the mill operation.

Q. Well, I think maybe before we name this, we should get some information about it. This is a letter you sent to Mr. Dawson, is it not, in response to this matter? A. Yes.

Mr. McRUER: It is in, my Lord. It is Exhibit 945.

THE COMMISSIONER: It is a letter of October 8

MR. McRUER: Yes, my Lord. It reads as follow

"I am writing this letter to explain the delay in forwarding to you certain further information which has been promised. I must state that the Royal Commission has been sitting here all this week and, of necessity, great part of my time has been spent either taking part in the proceedings or following them.

I am regarding the memo dealing with our

method of inventory valuation, and hope to have it sufficiently far advanced to attach at least a portion of it to this letter going forward by to-night's mail. We are also engaged in working on the information which Mr. Brickenden requested, viz., an explanation of the large amounts charged to the Repair Accounts of certain mills in certain years. We have dug back into our records and the memory of our operating officials and mechanical department with a view to ascertaining the nature of the work carried out in those mills in those years which might account for the repair charges in question, and we are now trying to correlate these facts with our figures and give a definite value to all the various renovations and repairs which account for the total figures. I am hoping that this will be sufficiently far enough advanced to get it off to you early next week as I understand the Commission propose to resume their sittings in Ottawa next Tuesday (Nov. 3rd) and that, sometime during the week, your firm will be called upon to give evidence.

I believe that the matters I have touched on here are all that remain outstanding of the mass of information which you required from us, but if I am mistaken on this point I will be glad to hear from you further."

And then there is a further letter of October 31, 1936:

ROBT. BRYDIE
CANADA

method of inventory valuation, and hope to have it sufficiently far advanced to attach at least a portion of it to this letter going forward by to-night's mail. We are also engaged in working up the information which Mr. Brisbane requested, viz., an explanation of the items amounts charged to the Depot accounts of certain mills in certain years. We have dug back into our records and the memory of our operating officials and mechanical department with a view to ascertaining the nature of the work carried out in those mills in those years which might account for the items charged in question, and we are now trying to correlate these facts with our figures and give a definite value to all the various renovations and repairs which account for the total figures.

I am hoping that this will be sufficiently far enough advanced to get it off to you early next week as I understand the Commission proposes to resume their sittings in Ottawa next Tuesday (Nov. 3rd) and that, something during the week, your firm will be called upon to give evidence.

I believe that the matters I have touched on here are all that remain outstanding of the items of information which you required from us, but if I am mistaken on this point I will be glad to hear from you further."

And then there is a further letter of October 31

"Dear Mr. Howson:

I am attaching herewith the balance of the Memo. re Method of Inventory Valuations, the first part of which went forward to you last night under cover of my letter of the same date.

I trust the information now in your hands in this connection will suffice for your purposes."

The memorandum is in two parts. Sheet No.1 is dated October 30, 1936, and reads as follows:

"Memorandum re Method of Inventory Valuation

The whole Inventory can, firstly, be looked upon as lending itself to segregation into two main divisions, viz.:-

A. Those sections of the inventory which are related to our basic raw materials, i.e., Cotton, or less important raw materials such as Rayon and Wool;

B. Those sections which are not related to raw materials.

In the first division, of course, is our stock of raw cotton, and then follows cotton in process and of manufacture and then semi-manufactured or completely manufactured cotton goods. It is sometimes difficult to say whether goods are semi-manufactured or completely manufactured. Yarns, for example, are sold as such, or further processed into cloth. Grey cloth is sold as such, or further processed into bleached, dyed, and printed goods by the yard. Bleached white

I am attached herewith the balance of the memo. re Method of Inventory Valuations, the first part of which went forward to you last month under cover of my letter of the same date.

I trust the information now in your hands in this connection will suffice for your purposes.

The memorandum is in two parts. Sheet No.1 is dated October 20, 1926, and reads as follows:

"The whole inventory was, firstly, be looked upon as leading itself to segregation into two main divisions, viz.:-

A. Those portions of the inventory which are related to our trade raw materials, i.e., cotton, or less important raw materials such as hemp and wool;

B. Those sections which are not related to raw materials.

In the first division, of course, is our stock of raw cotton, and then follows cotton in process and of manufacture and semi-manufactured or completely manufactured yarns.

It is sometimes difficult to say whether goods are semi-manufactured or completely manufactured. Yarns, for example, are sold as such, or further processed into cloth. Grey cloth is sold as such, or further processed into bleached, dyed, or printed goods by the yard. Bleached white

goods, such as sheetings and pillow cottons are sold as such, or further processed into sheets and pillow slips.

In the second division is included the many hundreds of different kinds of supplies, &c., required for the operation of manufacturing plants and the carrying on of the business generally, such as hardwares, coal, oil, stationery, &c., &c., as well as particular items, such as starches, chemicals, dyestuffs, &c., peculiar to the cotton textile business.

All values applying against items in the first division are related to the value of raw cotton, but, here again, a definite distinction is made between the basis of values for raw cotton as such, and cotton which has been put into process or become semi-manufactured or completely manufactured goods. It has been our practice to look upon raw cotton in the bale as being a highly liquid asset and, therefore, worth the market value obtaining in the raw cotton market at the time of inventory less a fixed reserve to provide against sudden fluctuations in market values."

Q. That is the reserve we have just been discussing, the $1,000,000 reserve ? A. Yes.

Q. It goes on:

"Once the raw cotton passes out of the bale into process, we can no longer look on it as being of liquid worth since it may be weeks or

goods, such as sheetings and pillow cottons are sold as such, or further processed into sheets and pillow slips.

In the second division is included the many hundreds of different kinds of apparel, &c., required for the operation of manufacturing plants and the carrying on of the business generally, such as hardware, coal, oil, stationery, &c., &c., as well as knitting yarn items, such as stockings, sheepskins, blankets, &c., peculiar to the cotton textile business.

All valuation supplying segment items in the first division are related to the value of raw cotton, but, here again, a definite distinction is made between the cost of wages for raw cotton as such, and cotton which has been put into process or becomes semi-manufactured or completed merchantable goods. It has been our practice to look upon raw cotton in the bale as being a highly liquid asset and, therefore, worth the market value obtaining in the raw cotton market at the time of inventory less a fixed reserve to provide against sudden fluctuations in market values."

4. That is the reserve we have just been discussing?

the $1,000,000 reserve ? A. Yes.

Q. It goes on:

"Once the raw cotton passes out of the bale into process, we can no longer look on it as

months before it reaches saleable form, and, even then, there may be little demand for the type of goods it has been made into.

As the cotton market has been known to take very wide fluctuations in the space of a few weeks, we have founded our Process Inventory Values on a fixed low point in raw cotton market history. This value is used with increments for the various stages of process to represent the additional expenditures required to advance the cotton from the raw cotton state to each stage of manufacture. The values used for semi or completely manufactured goods have been in effect for many years on the individual cloths which have also been in existence over those years. From time to time new cloths have been given suitable values by interpolation between the values of existing similar cloths."

THE COMMISSIONER: It sounds scriptural.

MR. McRUER: Yes. Then the next portion of the memorandum follows:

"Still dealing with the first division of the inventory, there are for each mill summary discounts consisting of fixed amounts, set up many years ago, which are deducted from the 'face' value of the inventory when it reaches Head Office. The mill offices in the case of certain departments, after arriving at a value of the inventory for that department, subject it to a fixed percentage discount. This is

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months before it reaches saleable form, and, even then, there may be little demand for the type of goods it has been made into.

As the cotton market has been known to take very wide fluctuations in the space of a few weeks, we have found our Process Inventory Values on a fixed low point in raw cotton market history. This value is used with increments for the various stages of process to represent the additional expenditure required to advance the cotton from the raw cotton state to each stage of manufacture. The values used for wool or completely manufactured goods have been in effect for many years on the individual cloths which have also been in existence over those years. From time to time new cloths have been given suitable values by interpolation between the values of existing similar cloths."

THE COMMISSION: It sounds satisfactory.

MR. MCGUIRE: Yes. Then the next portion of the memorandum follows:

"Still dealing with the first division of the inventory, there are for each mill summary accounts cumulation of fixed amounts, set up many years ago, which are deducted from the 'base' value of the inventory when it reaches used Office. The mill officers in the case of certain departments, after arriving at a value

generally applicable in the case of departments such as the weaving department, where the quality of the goods has been set but where it is still unknown whether that quality is Firsts or Seconds.

With respect to the values in the second division, comprising what may be broadly termed Supplies, our practice is to use the current market unit values for the various items, and the total value of that group of items is then subjected to a percentage discount which, while steady for the group, varies between one group and another according to the nature of the items in each group. Coal is not subjected to any discount, but is taken at full market value. The general run of Supplies, not likely to be influenced by changes in style trends, &c., are subjected to a fixed percentage discount of 25 per cent. Certain types of Supplies of an unmarketable nature, or which are liable to be rendered obsolete or slow moving by reason of change in style of goods, &c., such as certain classes of dyestuffs, are discounted up to 75 per cent.

You will appreciate from all of the foregoing that there is a tendency during the course of our fiscal year (We take inventory of the first division four times per year, and, in the second division, twice a year) for the fluctuations of inventory quantities to increase or

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Generally applicable in the case of departments such as the wearing department, where the quality of the goods has been set but where it is still unknown whether that quality is first or second

With respect to the values in the second

supplies, our practice is to use the current market unit values for the various items, and the total value of the stock group of items is then subjected to a percentage discount which, while steady for the group, varies between one group and another according to the nature of the items in each group. Coal is not subjected to any discount, but is taken at full market value. The general run of supplies, not likely to be influenced by changes in style trends, &c., are subjected to a fixed percentage discount of 85 per cent. Certain types of supplies of an unmarketable nature, or which are liable to be rendered obsolete or slow moving by reason of change in style of goods, &c., such as certain classes of draperies, are discounted up to 75 per cent.

You will appreciate from all of the foregoing that there is a necessity during the period of our fiscal year (we take inventory of the first division four times per year, and, in the second division, twice a year) for the fluctuations

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decrease the total effective discount embodied in the inventory, and this tends to obscure the real trend of operations. As between one year and another, this effect is not at all pronounced since our fiscal year always ends at the same time, namely, March 31st, and the seasonal element is not a factor. We are, however, planning in future to eliminate even the effect of seasonal variation in inventory quantities during a fiscal year by establishing a normal quantity level at stages of the inventory, above which additional quantities will be valued at actual cost of production, or vice versa if the inventory drops below those levels it will be debited with the difference between regular inventory values and actual cost of production. This procedure should prevent our showing a fictitious profit in the event of inventories being abnormally low at a certain quarter during the year or, on the other hand, an unusually large loss at times when the inventory is abnormally high."

Q. Now, Mr. Gordon, I want to see if we can get some explanation of this. A. A few things occurred to me, Mr. McRuer, as you were reading it, and I should like to refer to them now, if I may, to get them straight.

Q. Yes. A. The letter refers, broadly, to semi-manufactured goods as not having a definite

decrease the total effective discount enjoyed in the inventory, and this tends to obscure the real trend of operations. As between one year and another, this effect is not at all pronounced since our fiscal year always ends at the same [illegible] element is not a factor. We are, however, planning in future to eliminate even the effect of seasonal variation in inventory quantities during a fiscal year by establishing a normal quantity level at stages of the inventory, above which additional quantities will be valued at actual cost of production, or vice versa if the inventory drops below those levels it will be debited with the difference between regular inventory values and actual cost of production. This procedure should prevent our showing a fictitious profit in the event of inventories being abnormally low at a certain quarter during the year or, on the other hand, an unusually large loss at times when the inventory is abnormally high."

6. Hon. Mr. Gordon, I want to see if we can get some explanation of this. A. A few things occurred to me, Mr. Meighen, as you were reading it, and I should like to refer to them now, if I may, to [illegible].

[illegible]. A. The letter reads, "Until

relationship to raw cotton values.

Q. Yes. A. That should be made more clear. It should say, semi-manufactured goods after they leave the grey mill, after they leave our spinning and weaving mills. That should be added there to make it absolutely clear, because it is true only of these semi-manufactured goods after they leave the grey mills.

Q. That is, there is this definite relationship then? A. As soon as they are at the grey mills. The other point was that in the memorandum I say that we only take an inventory in the second division twice a year. Of course, we must have some inventory in between quarters, but we only take a final inventory twice a year. We have, however, a system that gives us a figure for inventory purposes in the first and third quarters.

Q. Now just to deal with some of the items in order, you divide the inventory into two divisions:

" A. Those sections of the inventory which arr related to our basic raw materials, i.e., Cotton, or less important raw materials such as Rayon and Wool;"

We are dealing now with goods in process and semi-manufactured or manufactured goods. A. Well, you start off with raw cotton in the bale.

Q. No, no. A. The very first one naturally is raw cotton.

Q. Yes, but dealing with raw cotton the way you have dealt with it, market or cost, whichever is the

related mainly to raw cotton values.

Q. Yes. A. That should be made more clear. It should say, semi-manufactured goods after they leave the grey mill, after they leave cotton and woolen mills. That should be added there to make it absolutely clear, because it is true only of these semi-manufactured goods after they leave the grey mills.

Q. That is, there is this definite relationship A. As soon as they are at the grey mills. The other point was that in the memorandum I say that we only take an inventory in the second division twice a year. Of course, we must have some inventory in between quarters, but we only take a final inventory twice a year. We have, however, a system that gives us a figure for inventory purposes in the first and third quarters.

Q. Now just to deal with some of the items in order, you divide the inventory into two divisions:

" A. Those sections of the inventory which are related to our basic raw materials, i.e., Cotton, or less important raw materials such as hemp and wool;"

We are dealing now with goods in process and manufactured or manufactured goods. A. Well, you start off with raw cotton in the bale.

Q. No, no. A. The very first one naturally is raw cotton.

lower -- A. No, sir, market.

Q. Market? Oh, I see. A. At March 31.

Q. Market as of March 31, and you have against it an inventory reserve of $1,000,000 ? A. At the present time, yes.

Q. At the present time. Can you tell me what your total raw cotton on hand amounted to on March 31st of last year? A. Yes, I think I can tell you. Do you want the exact figure? It would be about 21,000,000 pounds of raw cotton on hand.

Q. 21,000,000 pounds, and the market for raw cotton at that time was what ? A. About 11.20, your raw cotton future market. The actual price I think was 12.40, including the premium for staples.

Q. But your inventory value, the value you put in your inventory for raw cotton? A. The average for thousands of descriptions was 12,40 cents a pound, speaking from memory. That could be checked but I am pretty sure it is right.

Q. Then the inventory value of your raw cotton amounted in dollars and cents to $2,600,000 ?
A. Yes, in round figures.

Q. And you had against that a reserve of $1,000,000 ? A. Yes, but you must remember that that figure of 12.40 cents a pound may have also represented some inflation above the actual cost of the cotton.

Q. Mr. Howson tells me that it is in your questionnaire, inventory on hand at that time as $2,700,000. A. Yes, there was $100,000 of waste.

Q. Mr. Merkel, you have been in the cotton business for many years, have you not?

A. Yes, sir, many years.

Q. Merkel? Oh, I see. A. At page 21.

Q. Merkel on or March 31, and you have reported in an inventory reserve of $1,000,000 ? A. At the present time, yes.

Q. At the present time. Can you tell us what your total raw cotton on hand amounted to on March 31st of last year? A. Yes, I think I can tell you. Do you want the exact figure? It would be about $1,000,000 pounds of raw cotton on hand.

Q. $1,000,000 pounds, and the market for raw cotton at that time was what ? A. About 11.50. Your raw cotton inland market. The actual price I think was 12.40, including the premium for staples.

Q. But your inventory value, the value you put in your inventory for raw cotton? A. The average for thousands of descriptions was 12.40 cents a pound, speaking from memory. That could be checked but I am pretty sure it is right.

Q. Then the inventory value of your raw cotton amounted in dollars and cents to $5,600,000 ?

A. Yes, in round figures.

Q. And you had against that a reserve of $1,000,000 ? A. Yes, but you must remember that that figure of 12.40 cents a pound may have also represented some inflation above the actual cost of the article.

Q. We may take it as $2,700,000, and the reserve is $1,000,000? A. Yes.

Q. Now to proceed with this explanation in your memorandum. You say:

"All values applying against items in the first division are related to the value of raw cotton, but, here again, a definite distinction is made between the basis of values for raw cotton as such, and cotton which has been put into process or become semi-manufactured or completely manufactured goods."

Now you do not use the same basis for inventory value after the raw cotton is put in process? A. No, not once it leaves the bale.

Q. The basis you take then is the low price of raw cotton for what shall we say, the history of the company? A. Yes, I think so. It may not be absolutely the low point of the market.

Q. But it is pretty close to it? A. Fairly close.

Q. What you have taken actually is 5 cents, is it not? A. Five cents, but it works out to 6.4 cents a pound after you put on the average basis for the cotton as it exists. You have to distinguish between future market values and actual cotton values, because one is a particular class of staples, and the average increment added by the premium, the average grade of staple being higher than the New York standard market, is 1.4 cents a pound.

6. We may take it as $3,700,000, and the reserve is $1,000,000? A. Yes.

4. Now to proceed with this explanation in your own words. You say:

"All values applies specific items in the first division are related to the value of raw cotton, but, here again, a definite distinction is made between the basis of values for raw cotton as such, and cotton which has been put into process or become semi-manufactured or completely manufactured goods."

Now you do not use the same basis for inventory value after the raw cotton is put in process? A. No, not once it leaves the bale.

6. The basis you take then is the low price of raw cotton for what shall we say, the history of the company? A. Yes, I think so. It may not be absolutely the low point of the market.

6. But it is pretty close to it? A. Fairly close.

2. What you have taken actually is 5 cents, is it not? A. Five cents, but it works out to 6.4 cents a pound after you put on the average [illegible]

BY THE COMMISSIONER: Q. That is 1.4 cents a pound above market quotations? A. Yes, my lord.

BY MR. McRUER: Q. That is, if we compare it with the market price, we should take five cents, because to the market price would have to be added the premium? A. The only point is that if you compare it with March 31 inventory price, you have to take 6.4.

Q. Quite right. It depends what two figures we are comparing? A. Yes.

Q. You go on to say:

"It has been our practice to look upon raw cotton in the bale as being a highly liquid asset and, therefore, worth the market value obtaining in the raw cotton market at the time of inventory less a fixed reserve to provide against sudden fluctuations in market values."

Do those words "less a fixed reserve" simply refer to this reserve of $1,000,000, or does it mean a discount? A. No, it means that $1,000,000 as it exists today, and the $1,500,000 as it was at another time.

BY THE COMMISSIONER: Q. You refer to the raw cotton reserve? A. Yes.

BY MR. McRUER: Q. You regard raw cotton as a highly liquid asset and therefore worth the market value obtaining in the raw cotton market, and you had a reserve in 1936 of $1,000,000 as against a $2,700,000 inventory of raw cotton.

A. That was the inventory at that particular date. It had been a good deal higher in January.

Q. Your reserve had been higher too.

A. In the course of the entire year the inventory of raw cotton exceeds that by almost, I should say it might be 40 per cent higher than that at times.

Q. There are one or two points on the next sheet I wish to refer to. You say:

"Still dealing with the first division of the inventory, there are for each mill Summary Discounts consisting of fixed amounts, set up many years ago, which are deducted from the 'face' value of the inventory when it reaches Head Office."

Now you are still dealing with -- A. We are away from raw cotton now. We are on process and manufactured goods.

Q. Process and manufactured goods.

BY THE COMMISSIONER: Q. Have you got supplies too? A. No, sir, the supplies are not in that section. These Summary Discounts are actually applied against process and pack stock values.

BY MR. McRUER: Q. Let us understand that. Before the inventory reaches head office, it is subject to Summary Discounts consisting of fixed amounts at the mills? A. No, that is not the way it reads. It is subjected to percentage discounts at the mills.

Q. You say here:

"Still dealing with the first division

A. That was the inventory at that particular date. It had been a good deal higher in January.

Q. Your reserve had been higher too.

A. In the course of the entire year the inventory of raw cotton exceeds that by almost, I should say it might be 40 per cent higher than that at times.

Q. There are one or two points on the next sheet I wish to refer to. You say:

"Still dealing with the first division of the inventory, there are for cash mill Summary Discounts consisting of fixed amounts, set up many years ago, which are deducted from the 'face' value of the inventory when it reaches Head Office."

Now you are still dealing with -- A. We are away from raw cotton now. We are on process and manufactured goods.

Q. Process and manufactured goods.

BY THE COMMISSIONER: Q. Have you got supplies too? A. No, sir, the supplies are not in the section. These Summary Discounts are actually applied against process and book stock values.

BY MR. McRUER: Q. Let us understand that. Before the inventory reaches head office, it is subject to Summary Discounts consisting of fixed amounts at the mills? A. No, that is not the way it reads. It is subjected to percentage discounts at the mills.

Q. You say here:

of the inventory" --

That is goods in process. A. Including the raw cotton, but we have finished with raw cotton.

Q. It goes on:

"there are for each mill Summary Discounts consisting of fixed amounts"--

A. Yes.

Q. It goes on:

"-- set up many years ago, which are deducted from the 'face' value of the inventory when it reaches Head Office."

A. Yes.

BY THE COMMISSIONER: Q. That does not affect raw cotton? A. No, that is dealing with process goods.

BY MR. McRUER: Q. The raw cotton is composed partly of goods in process now? A. Not that particular raw cotton that we take the inventory on, but some raw cotton that was there before that.

Q. I want this perfectly clear, that the raw cotton we have dealt with so far for the purpose of inventory is raw cotton that is on hand, and not in process. A. No, that is raw cotton in the bale, untouched on March 31.

Q. That is what I mean. On March 31, there is $2,700,000 of raw cotton. That is the value put on raw cotton in the bale and untouched. Against that you had a reserve of $1,000,000? A. That is right.

Q. And distinct from that you have goods in process, and we are going to deal with that.
A. Goods in process and manufactured.

Q. And manufactured, and we are going to deal with that. A. Although it reads so much raw cotton, if you like, it was some raw cotton at some earlier date.

Q. Oh, quite so. The first step is to take the inventory and put what you call a face value on it? A. Yes, to arrive at the value on the basis of a valuation.

Q. And what is the basis of the valuation?
A. The basis of valuation is to start off with raw cotton in the bale at 6.4 cents a pound on the average.

Q. Yes. A. We make a division right through of mills where it applies upon cotton.

Q. Just a moment. You say all mills where it applies. Is there any qualification on that?
A. Only in this respect. It will be perfectly clear that we make a distinction between raw cotton shorter than 1-1/8 inches and raw cotton longer than that.

Q. What is the distinction? A. We take raw cotton shorter than 1-1/8 inches at 6 cents a pound, starting off, and, longer than 1-1/8 inches at 7 cents a pound. In some mills you find both cottons, and in other mills only one or the other. That follows right through. That is the basic value.

Q. Are distinct from that you have noted in process, and we are going to deal with that.

A. Goods in process and manufactured.

Q. And manufactured, and we are going to deal with that.

A. Although it trends so much to cotton, if you like, it was some ten cotton at some earlier date.

Q. Oh, quite so. The first step is to take the Inventory, and put what you call a Tax value on it?

A. Yes, to arrive at the value on basis of a valuation.

Q. And what is the basis of the valuation?

A. The basis of valuation is to start off with raw cotton in the bale at 6.4 cents a pound on the average.

Q. Yes.

A. We make a division right through of mills where it applies upon cotton.

Q. Just a moment. You say all mills where it applies. Is there any qualification on that?

A. Only in this respect. It will be perfectly clear that we make a distinction between raw cotton shorter than 1-1/8 inches and raw cotton longer than that.

Q. What is the distinction?

A. We take raw cotton shorter than 1-1/8 inches at 6 cents a pound, [illegible] 1-1/8 inches at 7 cents a pound. In some mills you find both cottons, and in other mills only one or the other. That follows right through. That is the basis value.

If you take and follow that cotton through the mills to your spinning bobbin, where it becomes yarn, that basic value of 6 or 7 cents a pound, whichever it may be, has become greater by the weaving. So looking at the value of the yarn at that point the 6 cents may become 7½ cents, and the 7 cents may become 9 cents if it is combed yarn.

Q. Roughly there is 20 per cent for waste? A. On carded work the usual is 16, and on combed it is as high as 30.

Q. You value the raw cotton then at 6.4 ? A. You take 6.4 cents as the average between 6 and 7 because we have more shorter staple than longer.

Q. We will deal with it on that basis. That is the first step in arriving at the inventory value in the grey? A. Yes.

Q. What do you do next? A. You add to that 6.4 the added value created by taking the waste out. It takes 1¼ pounds or cotton to make a pound of yarn.

Q. You add to the cost of cotton the waste? A. And bring it to the intrinsic value of the cotton represented in a pound of yarn.

Q. In adding for the waste, do you go on the basis of 6.4 cotton or on the basis of the market? A. We go on the basis of the 6 or 7 cent cotton, whichever happens to be in that particular run of work.

Q. You take the lower figure when reckoning the waste? A. If the yarn is made up of 6-cent

If you take and follow that cotton through the
mills to your spinning bobbin, where it becomes yarn,
that basis value of 6 or 7 cents a pound, whatever
it may be, has become greater by the weaving. So
joining at the value of the yarn at that point the
6 cents may become 7½ cents, and the 7 cents may
become 9 cents if it is combed yarn.

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is as high as 30.

Q. You value the raw cotton then at 6.4 ?

A. You take 6.4 cents as the average between 6 and 7
because we have more another grade than lower,

Q. We will deal with it on that basis. That
is the first step in arriving at the inventory value
in the grey? A. Yes.

Q. What do you do next? A. You add
to that 6.4 the added value created by taking the
waste out. It takes 1½ pounds of cotton to make a
pound of yarn.

Q. You add to the cost of cotton the waste?

A. And bring it to the intrinsic value of the cotton
represented in a pound of yarn.

Q. In adding for the waste, do you go on the
basis of 6.4 cotton or on the basis of the market?

A. We go on the basis of the 6 or 7 cent cotton,
whichever happens to be in that particular run of work.

Q. You take the lower figure when reckoning the
waste? A. If the yarn is made up of 6-cent

cotton we work on the 6-cent figure, and divide by 84. If it is 7-cent cotton, if finer than 40's, we would divide the 7-cent figure by the 84.

Q. But you do not take the market value?

A. We do not go back to the 5 cents.

Q. I do not mean the 5 cents. I mean the inventory value of raw cotton. You do not appraise the waste on the basis of the cotton in the bale?

A. I do not follow you there at all. You are talking about the waste as such?

Q. Yes. A. I am talking about cotton waste, as a waste value.

Q. I am talking about losses. There is 20 per cent loss, we will say, for waste. When you are figuring that to see what the loss has been, you figure it on the basis of 6 cents, if you are working on that basis? A. Yes, you divide 6 by .80 in that case -- multiply by 100 and divide by 80.

Q. Then proceed to tell me what the next step is. A. The next step is, you have your intrinsic value of cotton as represented in that article at that point. You have to add to that the cost of manufacture in carrying raw cotton from the bale up to the yarn or up to the roving.

Q. Or wherever it may be in process?

A. Yes, without putting on any profit or selling expense.

Q. Yes? A. And that is added to the intrinsic value of the raw cotton to give you the value at that point in process.

cotton we work on the 6-cent figure, and divide by 84. If it is 7-cent cotton, if finer than 40's, we would divide the 7-cent figure by the 84.

Q. But you do not take the market value?

A. We do not go back to the 6 cents.

Q. I do not mean the 6 cents. I mean the inventory value of raw cotton. You do not appraise the waste on the basis of the cotton in the bale?

A. I do not follow you there at all. You are talking about the waste as such?

Q. Yes. A. I am talking about cotton waste, as a waste value.

Q. I am talking about losses. There is 80 per cent lose, we will say, for waste. When you are figuring that to see what the loss has been, you figure it on the basis of 6 cents, if you are working on that basis? A. Yes, you divide 6 by .80 in that case -- multiply by 100 and divide by 80.

Q. Then proceed to tell me what the next step is.

A. The next step is, you have your intrinsic value of cotton as represented in that article at that point. You have to add to that the cost of manufacture in carrying raw cotton from the below up to the yarn or up to the roving.

Q. Or wherever it may be in process?

A. Yes, without putting on any profit or selling expense.

Q. Yes? A. And that is added to the intrinsic value of the raw cotton to give you the

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Q. Does that give you what you call in your letter the "face" value of the inventory when it reaches Head Office? A. It does so far as grey mills are concerned, so far as spinning and weaving mills are concerned.

Q. Then what has to be done to give you the face value of the inventory in respect to the other mills? A. There the practice has been to start off on a new plane of raw material values. The grey cloth, which is their basic raw material, they do not go behind that. They start off with grey cloth.

Q. How do they value grey cloth? A. They value it on a valuation that has been established as far back I think as 1910.

Q. The same value each year? A. Yes.

Q. This arbitrary value that is put on the grey cloth in the converting plants is one that has been constant since 1910 at least? A. Yes.

Q. And what ratio does it bear to market? A. It has borne a variable ratio to market. I think at times it has been higher than market, as far as we can find out.

Q. Does it very often go higher than market? A. It depends just how far the market goes below a certain point. I do not know exactly where; I have not worked it out that way.

Q. I would like to know what would be the difference in any particular year. A. That can

Q. Does that give you what you call in your letter the "base" value of the inventory when it reaches Head Office? A. It does so for grey mills are converted, so far as planning, and weaving mills are concerned.

Q. Then what has to be done to give you the base value of the inventory in respect to the other mills? A. There the practice has been to start off on a new plane of raw material values. The grey cloth, which is their basic raw material, they do not go behind that. They start off with grey cloth.

Q. How do they value grey cloth? A. They value it on a valuation that has been established as far back I think as 1910.

Q. The same value? A. Yes.

Q. This arbitrary value that is put on the grey cloth in the converting plants is one that has been constant since 1910 at least? A. Yes.

Q. And what ratio does it bear to market? A. It has borne a variable ratio to market. I think at times it has been higher than market, as far as we can find out.

Q. Does it ever fall [illegible]? A. It depends just how far the market goes below a certain point. I do not know exactly where; I have not worked it out that way.

Q. I would like to know what would be the [illegible]

be worked out. In fact, Mr. Howson's partners are very busy working it out just now.

Q. I think it is probably the figure I have on the table here. A. I have not seen it yet.

Q. That will give us that result anyhow, and I think it is sufficient for our purpose to say that in the converting plant the grey goods are taken in at this constant figure and have been since 1910.

A. Of course, it varies between one line and another. The grey figure is constant in so far as it applies to that particular line from year to year, but each style of cloth has its own value.

Q. Yes, and the value for the purposes of inventory for grey goods in the converting plant has been the same ever since 1910? A. Yes, where we can trace the style of its manufacture, it has always been the same value.

Q. Well then, in the converting plant, you start off on that basis. We will call it "X" for want of a better name. And what is added to that? How do you calculate to bring it up to face value of inventory as it reaches Head Office? A. It receives what I have termed in the memorandum increments of value representing cost. They are arbitrary ones I would say, from the standpoint that they do not have nearly as many stages of progression as we have in the cotton mills -- grey cloth, bleaching, in process, warehouse, and pack stock.

Q. Then you just have? A. Arbitrary

to worked out. In fact, Mr. Bean's practice was very busy working it out just now.

Q. I think it is probably the figure I have on the tele-stems. A. I have not seen it yet.

Q. That will give us the result anyhow, and I think it is entirely out for our purpose to say that in the converting plant the grey goods are taken in at this constant figure and have been since 1910.

A. Of course, it varies between one line and another. The grey figure is constant in so far as it applies to that particular line from year to year, but each style of cloth has its own value.

Q. Yes, and the value for the purpose of inventory for grey goods in the converting plant has been the same over since 1910? A. Yes, where we can trace the style of its manufacture, it has always been the same value.

Q. Well then, in the converting plant, you start off on that basis. We will call it "X" for want of a better name. And what is added to that? How do you calculate to bring it up to the value of inventory as it remains dead office? A. It receives what I have termed in the memorandum various manufacturing costs. They are ordinary ones I would say, from the time point that they do not have nearly as many stages of progression as we have in the cotton mills -- grey cloth, bleaching, in[illegible], mercerizing, and dyeing.

increases for these four steps in relation to cost. I mean in relation to the average cost embodied in the rise as you go along.

Q. Have these arbitrary increases remained the same over a period of years? A. As far as we have been able to check them.

Q. They again have been the same? A. They have been the same, yes.

Q. So it seems that your basis of valuing the print goods has been exactly the same for the same lines ever since about 1910? A. Yes, when I say 1910 I would not like to be tied down to that year; it may be 1912.

Q. But as they say in law, the memory of man runneth not to the contrary. A. I have satisfied myself that it goes back behind any period where income tax and that sort of thing has any bearing on the matter.

(Page 12728 follows)

increase for these four steps in relation to coal.

I mean in relation to the overseas cost embodied in the rise as you go along.

Q. Have these statistics therefore remained the same over a period of years? A. As far as we have been able to check them.

Q. They remain the same? A. They have been the same, yes.

Q. So it seems that your basis of working the print goods has been exactly the same for the more times ever since about 1910? A. Yes, when I say 1910 I would not like to be tied down to that year; it may be 1912.

Q. But as they say in law, the memory of man runneth not to the contrary. A. I have satisfied myself that it goes back behind any period where income tax and that sort of thing has any bearing on the matter.

Q. Well then, that gives us the face value of the inventory as it reaches head office ? A. No, you have got to go on now and talk about your departmental discounts.

Q. Oh, I thought those were put on at head office? A. No, only the summary discounts.

Q. Then, we will proceed by easy stages. After the inventory has reached the stage where these arbitrary valuations have been added, as I call them -- A. Where they have been extended.

Q. Extended, at any rate, what next is done in the mills before the inventory is sent to head office ? A. That gives the valuation of the inventory of each department and it is all set forth in great detail, and so on, and then in certain departments such as the ones I refer to in my letter, particularly the weave room, a percentage discount is taken off the calculated value of that inventory as it exists, off what you call the face value.

Q. No ? A. What I call the face value -- no, what I call the face value when it gets to head office.

Q. I just want to be sure I am not confused about that ? A. Well, in my letter -- you see, in my letter I say "Still dealing with the first division of the inventory, there are for each mill Summary Discounts consisting of fixed amounts," -- those are not percentages, those are rather dollars and cents -- "set up many years ago, which are deducted from the 'face' value of the Inventory when it reaches Head Office." When I used the word "face" I am referring to it after

the percentage discounts are off in the department.

Q. But before it reaches head office; these deductions are made in the departments before it reaches head office ? A. Yes.

Q. I thought it meant they were deducted after it reaches head office ? A. The summary discounts are, that is, the fixed amounts, dollars and cents figures.

Q. All right, we don't want to get too fast. After the inventory has been made up on the basis you have told me you come to face value and there are certain deductions that are made; are those percentage deductions ? A. Yes.

Q. In the different departments ? A. Yes.

Q. That is, the percentages will vary in different departments? A. Yes.

Q. What range of percentages would apply ? A. It would start this way. In the weave room it is twenty and ten.

Q. Just let us get that, weave room twenty plus ten ? A. Not twenty plus ten, twenty and ten; there is a distinction, sir.

BY THE COMMISSIONER: Q. Twenty or ten ? A.No, sir, you take twenty off and then you take ten off what is left.

MR.McRUER: I was just going to get an illustration. Supposing the face value of the --

BY THE COMMISSIONER: Q. It is not thirty ? A. No, it is less than thirty.

BY MR.McRUER: Q. Supposing the face value of the inventory was $100. on a certain style? A. Yes.

the percentage discounts are out in the country.

Q. But before it reaches head office; those deductions are made in the departments before it reaches head office? Yes.

Q. I thought it meant they were deducted after it reaches head office? A. The summary discounts are, that is, the fixed amounts, dollars and cents figures.

Q. All right, we don't want to get too taut. After the inventory has been made up on the basis you have told me you come to face value and there are certain deductions that are made; are those percentage deductions? A. Yes.

Q. So the different [illegible]? A. Yes.

Q. That is, the percentages will vary in different [illegible]?

Q. What range of percentages would apply?

A. It would start this way. In the weave room it is twenty and ten.

Q. Just let us get that, weave room twenty plus ten? A. Not twenty plus ten, twenty and ten; there is a distinction, sir.

BY [illegible]: Q. Twenty or ten? A. No, sir, you take twenty off and then you take ten off what is left.

MR.MORGAN: I was just going to get an illustration. Supposing the face value of the --

BY THE COMMISSIONER: Q. It is not thirty?

A. No, it is less than thirty.

Q. You would take off twenty which would be eighty, which would leave it at eighty and then you would take off ten. That would be eight off of that which would leave a net of 72? A. Yes.

Q. In the weave room it is twenty and ten; what other percentages ? A. In the cloth room it is twenty and five.

Q. In the cloth room twenty and five ? A. And after it is packed it is twenty per cent. That is at the grey mills.

Q. That is in the grey mills; what other percentages apply ? A. Well, there are in certain departments at Montmorency in the Riverside mill in some of the yarn sale departments there are discounts there -- I think they are 15 per cent off departmental values. It applies to spooling, skein winding, tube winding, and on -- there may be a couple more minor departments there. It is presumably to look after loss in weight after it leaves these departments. They have been there for some time.

Q. Any other percentage discounts ? A. There are percentage discounts at the converting plants as well. I have not got them all in my head, sir. I think there is a five per cent discount off these grey cloth values before the process, before they start into the converting plants, that is, while they are in the bale, in the converting plant. The value is arrived at by taking the higher scale of grey cloth values which is discounted by five per cent. Then, I don't think there are any discounts in between in any of the

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6. You would take off twenty which would be eighty, which would leave it at eighty and then you would take off ten. That would be eight off of that which would leave a net of 72? A. Yes.

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departments until you come to -- I am not sure whether it is warehouse or packed stock, where there is a 20 per cent discount, or it may be 15. I am not sure at themoment.

Q. 20 per cent or 15 ?- A. Yes, off the warehouse or packed stock. The whole thing will be handy with the people in Montreal, the exact figures.

Q. Yes, I know, I am not tying you down to an exact percentage at all, but it is to get the general picture ? A. That is pretty close.

Q. Well then, the inventory, that is the way it is dealt with in the departments at the mills ? A.Yes.

Q. Then, it is sent to head office ? A. Yes, from every mill.

Q. Then, what happens at head office ? A. All that happens there is they take off these so-called summary discounts which consist of dollars and cents.

Q. That is what I want to know about ? A. The total spread over the whole company last inventory is $380,000. I cannot give you from memory the individual mill amounts.

Q. Well now, after having taken the inventory in the mills on the basis that you have told us with the various percentage discounts and the value for raw cotton at cost in the last fiscal year the deduction made at head office was $380,000. ? A. At March, or maybe for September last, I am not sure. The figure is constant, anyway. It would apply at every time.

Q. I know, but if it was made in September would

departments until you come to -- I am not sure whether
it is warehouse or packed stock, where there is a
20 per cent discount, or it may be 15. I am not sure
at present.

Q. 20 per cent or 15 ?- A. Yes, off the whole-
house or packed stock. The whole thing will be handy
with the people in Montreal, the exact figures.

Q. Yes, I know, I am not trying you down to an
exact percentage at all, but it is to get the general
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summary discounts which consist of dollars and cents.

Q. That is what I want to know about ? A.
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$380,000. I cannot give you from memory the individual

Q. Well now, after having taken the inventory it
is on the basis that you have told us even the
various percentage discounts and the value for raw
cotton at cost in the last fiscal year the deduction
at head office was $400,000. ? A. At
, or maybe for September last. I am not sure. I
think is correct, anyway. It would be by an exact

30 me.

there be a similar amount in March ? A. Yes. It is a fixed amount, you see. It is dollars and cents. It isn't a percentage. The size of the inventory does not make any difference. The only thing that changes it is that in the old years when there were other mills such as Halifax, Moncton, and Windsor, they had their own summary discounts. When those mills passed out of existence of course the summary discounts were abandoned as well. If we go back far enough we find that the present figure of $380,000. was at one time $500,000., before 1916.

Q. Then, the summary discount is always $380,000? A. Yes, it is a fixed amount.

Q. A fixed amount, no matter what the size of the inventory is ? A. Yes.

Q. Or no matter what year or no matter what the probable market is or anything of that sort ? A. It is a fixed amount per mill too. Each of the mills has its own share of that $380,000.

Q. You take that $380,000. and it is apportioned to the inventory of each mill in an arbitrary way ? A. Presumably it was an intelligent way in the first place, I don't know.

BY MR. GEOFFRION: Q. You weren't there ?

A. No, I wasn't there.

BY MR.McRUER: Q. An inflexible way, at any rate? A. Yes.

Q. Mr. Gordon, before I go into the details can you tell me how you get at the insurable value of your inventory ? A. We don't get at it. The fire

insurance company when we ask them to, or when they perhaps think it is fitting, when they consider it should be done for our own knowledge, and they make an appraisal --

Q. No, of the inventory ? A. Oh, I am sorry, I thought you said -- what did you say ?

Q. The insurable value of your inventory ?

A. It is taken -- I don't know that I do know at the moment.

Q. I was just wondering if you had been going to make a claim against the insurance company on the 31st of March last year whether you would make it on the basis of this basis or some other basis? A. No. I know what we would do in the particular case of a claim. What we would do would be to take our cost up to that point and add what we would consider to be the replacement value of the cotton as of that date.

Q. As of that date, and it would be considerably more than calculated on this basis ? A. It would depend where the raw cotton market was.

Q. In relation to the five cents, I am taking last year ? A. Last year cotton was averaging between 11 and 12 cents a pound. It would be more. If you go back to 1932 it was not.

Q. I am taking the average over the period. We have the raw cotton prices filed. You have taken the low basis over a 20-year period to work on, but you would not work on any such basis as that with the insurance company ? A. No, not in putting in a claim for particular damage to a lot of cotton.

insurance company when we ask them to, or when they should be done for our own knowledge, but they make an appraisal --

Q. No, of the inventory ? A. Oh, I am sorry, I thought you said -- what did you say ?

Q. The insurable value of your inventory ?

A. It is taken -- I don't know that I do know at the moment.

Q. I was just wondering if you had been going to make a claim against the insurance company on the 31st of March last year whether you would make it on the basis of this basis or some other basis? A. No. I know what we would do in the particular case of a claim. What we would do would be to take our count up to that point and add what we would consider to be the replacement value of the cotton as of that date.

Q. As of that date, and it would be considerably more than calculated on this basis ? A. It would

Q. In relation to the five cents, I am taking Last year ? A. Last year cotton was averaging between 11 and 12 cents a pound. It would be more. If you go back to 1928 it was not.

Q. I am taking the average over the period. We have the raw cotton prices filed. You have taken the low basis over a 20-year period to work on, but you would not work on any such basis as that with the insurance company ? A. No, not in putting in

Q. Well now, Mr. Howson has received the figures from Mr. Shepherd as to the amounts of what I call now inventory reserve created in the way that you have told us, and, after all, th t is what it is, isn't it, Mr. Gordon ? A. Just before you ask me that, does this include everything?

Q. This includes under-valu tion by taking the five cent basis ? A. Yes, that includes that first of all.

Q. The first column is under-valuation by taking the five cent basis and the second column is the discount that was applied in each year ? A. Yes.

Q That is what you call the summary discounts and then the discount at the head office -- A. Could I ask Mr. Howson through you ?

Q. Yes, ask Mr. Howson directly and you will get a better answer. A. Mr. Howson, in arriving at your first figure here of so-called adjustment involved in the inventory is that the result of the figures Mr. Shepherd has been working on ?

MR.HOWSON: I got those from Mr. Moore this morning by telephone. They are not absolutely final yet. There are supposed to be some adjustments in regard to raw cotton.

THE WITNESS: Adjustment ir raw cotton, yes; that is important. I understand what those figures are supposed to mean.

BY MR.McRUER: Q. So subject to the adjustment on raw cotton inventory values where they have been based on market prices higher than cost -- A. Yes, that

is a point that affects the whole inventory right across. It does not affect these. It affects this figure here. It affects the figures in the first column, for the sake of the reporter.

Q. It starts with $308,891-- A. Which represents what Mr. Howson's firm has arrived at as the effective deflation of the inventory involved in our system of taking inventory. That includes raw cotton, Mr. Howson ?

MR. HOWSON: No.

THE WITNESS: I presume it does because there is inflation of raw cotton as well.

BY MR.McRUER: Q. Raw cotton in the bale ? A. Yes, if we take it at market on March 31st and the cost is lower there is inflation.

MR. HOWSON: That is what they give at the bottom.

THE WITNESS: That would apply to everything across the page ?

MR. HOWSON: No, I understand it applies only to raw cotton.

THE WITNESS: I see, he has taken raw cotton at market and left it at that, all right.

BY MR.McRUER: Q. Well, in 1916 the reserve for the inflation, or the inflation or deflation of the raw cotton values in the goods in process are shown in the first column and in the second column the summary discounts ? A. Yes, that is the net inflation or deflation.

Q. The net inflation or deflation is in the first column ? A. Subject to this adjustment.

Q. Subject to that adjustment, and we will have the adjusted table put in later, but these are the results; 1916, $308,891. plus $962,307. in the second column -- $969,307. in the discounts in the second column, making a total of $1,278,198. In 1917 raw cotton $471,259 -- A. No, don't say raw cotton there.

Q. Well, cotton in process ? A. In process and manufacture.

Q. Cotton in process and manufacture, $471,259.; discounts $973,310. or a total of $1,444,569. In 1918, $747,417, cotton in process; discounts $938,554. or a total of $1,685,971. 1919, cotton in process $910,060.; discounts $908,401. or a total of $1,818,461. 1920, cotton in process $1,738,682.; discounts $813,751. or a total of $2,552,433. 1921, cotton in process $280,309.; discounts $993,872. or a total of $1,274,181. 1922, cotton in process $866,705.; discounts $1,112,818. or a total of $1,979,523. 1923, cotton in process $1,569,699.; discounts $1,349,292. or a total of $2,918,991. 1924, cotton in process $1,502,395.; discounts $1,256,602. or a total of $2,758,997. 1925, cotton in process $1,216,266.; discounts $1,291,502. or a total of $2,507,768. 1926, cotton in process $878,738.; discounts $1,316,574. or a total of $2,195,312. 1927, cotton in process $413,799.; discounts $1,250,117. or a total of $1,663,916. 1928, cotton in process $1,297,968.; discounts $1,445,098. or a total of $2,743,066. 1929, cotton in process $1,327,932.; discounts

6. Subject to that adjustment, and we will have the adjusted table put in later, but these are the round ...; 1918, $300,001. plus $600,307. in the second column -- $969,307. In the discounts in the 1917 raw cotton $491,889 -- A. No, don't say raw cotton there.

Q. Well, cotton in process ? A. In process

Q. Cotton in process and manufactures,

$471,289.; discounts $79,310. or a total of $1,444,889. In 1918, $747,417, cotton in process; discounts $126,564. or a total of $1,889,971. 1919, cotton in process $510,060.; discounts $309,403. or a total of $1,818,401. 1920, cotton in process $1,738,889.; discounts $813,781. or a total of $2,552,433. 1921, cotton in process $330,809.; discounts $932,872. or a total of $1,274,181. 1922, cotton in process $886,708.; discounts $1,116,818. or a total of $1,879,588. 1923, cotton in process $1,589,096.; discounts $1,349,292. or a total of $2,918,381. 1924, cotton in process $1,302,965.; discounts $1,286,502. or a total of $2,788,807. 1925, cotton in process $1,810,809.; discounts $1,318,874. or a total of $3,129,812. 1927, cotton in process $878,788.; discounts $1,316,874. or a total of $2,195,812. 1927, cotton in process $1,668,816. 1928, cotton in process $1,807,903.;

$1,437,442. or a total of $2,765,374. 1930, cotton in process $846,983.; discounts $1,079,314. or a total of $1,926,297. 1931, cotton in process $502,968.; discounts $1,127,325. or a total of $1,630,293. 1932, cotton in process $162,076.; discounts $1,033,012 --

A. One million -- yes, you are right.

Q. $1,033,012 . or a total of $1,195,088. 1933, cotton in process $249,203.; discounts $1,072,128. or a total of $1,321,331. 1934, cotton in process $548,088.; discounts $1,093,903. or a total of $1,641,991. 1935, cotton in process $653,602.; discounts $1,108,156. or a total of $1,761,758. 1936, cotton in process $633,525.; discounts $1,086,184. or a total of $1,719,709. Now, I would like to have this marked , my lord, and have a properly typed copy filed and then if there are any adjustments to be made a copy may be filed with the adjustments on it.

THE COMMISSIONER: This will be 947.

THE WITNESS: It should be emphasized, Mr. McRuer, I think, as this is filed that the figure Mr. McRuer reads out each time first is not anything tangible. It is a figure that has been estimated by Mr. Howson's firm and is as close as they can come , making certain basic assumptions, to the difference between the value of our inventory as it exists on March 31st -- the value stated on our inventory and what that inventory might be assumed to be worth based on certain predicated raw cotton values; that is what it is.

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A. One million -- Yes, I'm sure right.

Q. $1,085,012 . or a total of $1,108,088. 1938, cotton in process of a total of $1,381,381. 1936, cotton in process $540,088.; discounts $1,085,903. or a total of $1,881,971. 1937, cotton in process discounts $1,108,136. or a total of $1,781,798. 1938, cotton in process $885,808.; discounts $1,056,184. or a total of $1,716,708. Now, I would like to have this marked , my Lord, and have a proper typed copy filed and then if there are any adjustments to be made a copy may be filed with the adjustments on it.

THE COMMISSIONER: This will be PAY.

I think, as this is filed that the figure it reads out each time first is not anything tangible. It is a figure that has been estimated by me. However, I am and is as close as they can come , making certain basic assumptions, to the difference between the value of our inventory as it exists on March 31st -- the value [illegible] our inventory [illegible]

Gordon

THE COMMISSIONER: Based on market or cost ?

MR.HOWSON: I am not absolutely sure. It is not any more than market.

THE WITNESS: It is not more than market but it is subject to correction.

MR. GEOFFRION: What is the number of that Exhibit, please ?

THE COMMISSIONER: 947.

MR. GEOFFRION: Will you type a copy for me also?

MR.McRUER: Oh yes.

THE COMMISSIONER: This is headed here Memo re Inventory Discounts, but before it can be used for any purpose we ought to make sure just how these figures are arrived at.

MR.McRUER: Well, Mr. Shepherd is writing us to-day and we will probably have him before the Commission.

THE COMMISSIONER: Well, it will be put in subject to further explanation.

MR.McRUER: I want it quite clearly understood it may be subject to certain corrections.

THE WITNESS: And apart from the corrections it should be clearly understood that the figures in the first column are just an estimation. It is something taken based on certain premises.

Q. As I understand it, you have based it on a certain flat figure. You take it at an arbitrary figure ? A. Yes.

Q. And this is a calculation of what it would have been increased by had it been based on a figure,

that is, market or something that Mr. Shepherd has worked on. We will find out from him what that figure is.

THE COMMISSIONER: These columns have headings, whatever they are worth. The first one is"Based on five cents base price of cotton for"-- I cannot make out the handwriting -- "for partly manufactured and finished goods?? A. That would be the heading, sir.

Q. That is what the first column is based on. The second column isbased on "Discounts for poor quality and seconds"? A. That is a very --

BY MR.McRUER: Q. That is not the correct heading ? A. No, that is not the correct heading for that second column.

THE COMMISSIONER: Well, we will not put it in at all until we have something more definite.

MR.McRUER: We had better wait until we have heard from Mr.Shepherd on it.

THE COMMISSIONER: It is not in.

ASSISTANT SECRETARY RENE; Are we leaving the number ?

THE COMMISSIONER: Yes, leave the number blank. It would be dangerous to put these things in and then forget later on.

MR.McRUER: Yes, we certainly want the heading stated correctly as to what it is. Well now, Mr. Gordon, what we are calculating here, at any rate, in these figures is what the inventory would have been in the first place had there been none of these departmental discounts or no head office discount, that

that is, market or something that Mr. Shepherd has worked on. He will find out from him what that figure is.

THE COMMISSIONER: These columns have headings, whatever they are we th. The first one is "Based on five cents base price of cotton for"-- I cannot make out the handwriting -- "for partly manufactured and finished goods"? A. That would be the heading, a., That is what the first column is based on. The second column labeled on "Discounts for poor quality and seconds" ? A. That is a very --

BY MR.MORROW: Q. That is not the correct heading ? A. No, that is not the correct heading for that second column.

THE COMMISSIONER: Well, we will not put it in at all until we have something more definite.

MR.MORROW: We had better wait until we have heard from Mr.Shepherd on it.

THE COMMISSIONER: It is not in.

ASSISTANT SECRETARY MISS: Are we leaving the number ?

THE COMMISSIONER: Yes, leave the number blank. It would be [illegible] put those things in and then forget later on.

MR.MORROW: Yes, we certainly want the heading stated correctly as to what it is. Well now, Mr. Gordon, what we are calculating here, at any rate, in the first place had there been more of these de-

is, the second column -- A. The second column is not a calculation. It is the sum total of all the reserves that have been disclosed -- well, of all figures that have been disclosed to Mr.Howson's partner.

Q. So there is no question about the second column being estimations or anything of that sort. They were deductions ? A. Yes.

Q. Then, the first column, we start off with the basis that you worked on and that was the basic price of five cent cotton and worked up from that ? A. So far as the grey mills are concerned.

Q. And so far as the converting mills are concerned you started on the arbitrary value of the grey cloth ? A. On a higher plane, yes.

Q. On a higher plane, and then we try to calculate, at any rate, what the inventory would have been had we taken cost or market and deduct the difference and that finds the reserve ? A. Well, so far as Mr. Shepherd has gone there he has attempted to value what it would have been at market on the basis of taking the market -- I know because I worked with him yesterday on it. The assumption has been -- you see, when you come to the end of your year and have all this cotton in process and in packed stuff nobody knows exactly what cotton that is.

Q. No ? A. And whatever value it has from a cost standpoint is awfully hard to say.

Q. It is going quite a long piece, isn't it, Mr. Gordon, to take the lowest price that cotton has been at

is, the second column -- ... The second column is not a deduction. It is the sum total of all the reserves that have been disclosed -- well, of all figures that have been disclosed to Mr. Cameron, partner.

Q. So there is no question about the second column being estimations or anything of that sort. Those were deductions ? ... Yes.

Q. Then, the first column, we start off with the basis that you worked on and did it was the basis of five cent cotton and worked up from that ? A. So far as the grey mills are concerned.

Q. And so far as the converting mills are concerned you started on the arbitrary value of the grey cloth ? A. On a higher plane, yes.

Q. On a higher plane, and then we try to ascertain at any rate, what the inventory would have been had Dalton sent or market and deduct the difference and that finds the reserve ? A. Well, so far as Mr. Shepherd has gone there he has attempted to value what it would have been at market on the basis of that the market -- I know because I worked with him yesterday on it. The assumption has been -- you see, when you come to the end of year two and have all this cotton in process and in packed stuff nobody knows exactly what cotton that is.

Q. No ? ... And we never value it has from a cost standpoint is awfully hard to say.

... It is going quite a long ways, but it

in the history of the company when you are trying to search out what value it had ? A. Well, we have not tried to search out. We have tried to give it a steady value, and that is what we have done.

Q. Well, it is a rock bottom one anyway.

MR. GEOFFRION: Which is the only steady one possible.

BY MR.McRUER: Q. In the meantime cotton over this period of years, cotton had risen as high as over 40 cents a pound ? A. Yes, that is where you get those terrifically big figures, of course.

Q. We have got one here in 1920 --

THE COMMISSIONER: 1921, is it ?

BY MR.McRUER: Q. Well, 1920, the value in the raw cotton in process in the reserve for it alone was $1,738,000. ? A. What was it the next year ?

Q. The next year it is $280,000.? A. Washed out.

THE COMMISSIONER: That is the year I had in mind, 1921.

THE WITNESS: You see, that year just exemplifies what happens, and that was the year we wrote down all orders on our books to ten cent cotton -- the balance of the orders on our books.

BY MR. McRUER:

Q. You say you wrote down the balance of the orders on your books to ten cent cotton ? A. Yes.

Q. That would account for the very substantial profits you made the next year ? A. No, if a customer had an order for a certain cloth based on 40 cent cotton in view of the fact that our standard

in the history of the country when you are trying to search out what value it had ? A. Well, we have not tried to search out. We have tried to give it a steady value, and that is what we have done.

Q. Well, it is a rock bottom one anyway.

MR. CHAIRMAN: Which is the only steady one possible.

BY MR.MORTON: Q. In the meantime cotton over this period of years, cotton had misen as high as over 40 cents a pound ? A. Yes, that is when you get those terrifically big figures, of course.

Q. We have got one more in 1920 --

THE COMMISSIONER: 1923, is it ?

BY MR.MORTON: Q. Well, 1920, the value in the raw cotton in process in the reserve for it alone was $1,756,000. ? A. What was it the next year ?

Q. The next year it is $600,000.? A. Smashed out.

THE COMMISSIONER: That is the year I had in mind, 1921.

THE WITNESS: You see, that year just completely what happens, and that was the year we wrote down all [illegible] -- the balance [illegible].

[illegible]

Q. That would account for the very substantial orders on your books to ten cent cotton ? A. Yes.

Q. [illegible] -- So, if a [illegible] in order for a certain sizth based on do

system of taking goods in process allowed us to sell him that really based on five cents if we wanted to go down to that, but we sold to him at ten.

BY THE COMMISSIONER: Q. You reduced the price you had agreed on ? A. Yes, we reduced the contract price to the basis of the new market price which was ten cents, roughly.

-- The Commission adjourned for a short recess.

-- On resuming.

BY MR.McRUER: Q. Well now, Mr. Gordon, take in the year ended the 31st of March, 1936, if there were discounts made on the inventory amounting to $1,086,184. ? A. $1,086--

Q. Yes, $1,086,184. and the reserve for raw cotton in process on the basis of this calculation, at any rate, is 633,525.; that gives you a total reserve as against goods in process of $1,719,709.? A. Yes.

THE COMMISSIONER: Pardon me till I get that right. Are you talking about this year ?

THE WITNESS: Yes, last March.

BY MR.McRUER: Q. Last March, and that is in addition to the million dollar reserve you have as against raw cotton ? A. Yes, raw cotton is not in this figure at all.

Q. Not in this figure at all; now, when I look at your balance sheet for the 31st of March, 1936, which is in Exhibit 938 -- A. Is is all right if I sit down ?

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him the t really based on five cents if we wanted to go
down to that, but we sold to him at ten.

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-- The Commission adjourned for a short recess.

-- On resuming.

the year ended the 31st of March, 1938, if there were
discounts made on the inventory amounting to
$1,086,184. ? A. $1,086--

Q. Yes, $1,086,184. and the reserve for raw
cotton in process on the basis of this deduction,
at any rate, is $38,385.; that gives you a total
reserve as against goods in process of $1,718,709.?
A. Yes.

THE COMMISSIONER: Pardon me till I get that
right. Are you talking about this year ?

BY MR.MOLLOY: Q. Last March, and that is in
addition to the million dollar reserve you have as
against raw cotton ? A. Yes, raw cotton is
not in this figure at all.

Q. Not in this figure at all; now, when I look
at your balance sheet for the 31st of March, 1938,
which is in Exhibit 938 -- A. Is it all
right if I sit down ?

THE COMMISSIONER: Yes, certainly.

BY MR.McRUER: Q. The inventories are dealt with there and we have under the heading "Inventories, raw cotton, less reserve $1,720,119.73", so that your raw cotton apparently amounted to $2,720,000. at that time? A. Yes.

Q. Then, we have "Merchandise and Supplies, $2,310,524.41" ? A. Yes.

Q. Now, that would be increased by the sum of $1,719,709. if calculated on this basis ? A. Yes, sir.

Q. Now, this note appears on your balance sheet: "As determined and certified by the Management and valued (1) As to Raw Cotton at less than prevailing market price". Now, you see you say that for raw cotton $1,720,119.73 is the value less reserve ? A. Yes.

Q. Then you say that the raw cotton was valued at less than the prevailing market price; that would be before the reserve was taken off ? A. No, not necessarily; I think the proper correct interpretation would be to say that the $1,720,000. by virtue of the reserve values cotton at less than the prevailing market price because it is the market price less reserve.

Q. If that is what you meant all right, if that was what was done, all right. I don't think that is quite clear. You tell me that is what is done ? A. It is not anything that is done. It is there. You can put the other interpretation on it if you want to.

Q. If you valued raw cotton at less than the

prevailing market price, then subtracted the inventory reserve of $1,000,000. then I would like to know at what basis you valued raw cotton ? A. Raw cotton, in the first place, was valued at market price and then deflated, because, you see, actually it is a question whether we are entitled in any year -- if the market price on March 31st is higher than the cost of putting that cotton into the inventory it is a question of whether we are entitled to take the market price. We have got to have a reserve to deflate it down to the reserve.

Q. You could take cost or market, whichever is the lower ? A. But you don't, that is why we have to have the reserve.

Q. Well, I don't know, you would not have to have the reserve if you did ? A. There is that point.

Q. Will you tell me please why you do not set out the amount of the raw cotton reserve in the balance sheet ? A. Well, it is only a custom, it isn't customary to show absolute figures where reserves are indicated.

Q. Well, I don't know --

BY THE COMMISSIONER: Q. You say where reserves are indicated; is any reserve indicated in that ?

MR.McRUER: It says "Raw cotton less reserve". I want to come to the next item which is more important, "(2) As to Merchandise and Supplies on basis of cost or market price, whichever ~~is~~ ~~lower~~ lower" ? A. Whichever was lower.

Q. Whichever was lower; that is not true, is it, Mr. Gordon ?

reserve of $1,000,000. then I would like to know at what basis you valued new cotton ? A. New cotton, in the first place, was valued at market price and then deflated, because, you see, actually it is a question whether we are entitled in any year -- if the market price on March 31st is higher than the cost of putting that cotton into the inventory it is a question of whether we are entitled to take the market price. We have got to have a reserve to deflate it down to the reserve.

Q. You could take cost or market, whichever is the lower ? A. But you don't, that is why we have to have the reserve.

Q. Well, I don't know, you would not have to have the reserve if you did ?

Q. Will you tell me please why you do not set out the amount of the notes payable in the balance sheet ? A. Well, it is only a matter, it isn't necessary to show absolute figures where reserves are itemized.

Q. Well, I don't know --

BY THE CHAIRMAN: Q. You say where reserves are itemized; is any reserve itemized in that ?

MR. LOEWUS: It says "New cotton less reserve". I want to come to the next item which is more important (2) is to Reconcile and Explain the basis of cost or market price, whichever is the lower ? A. [illegible]

A. I think it shows it is as true and rational a statement as you can expect.

Q. It isn't a question of that. I am going to analyze it with you ? A. You have asked me what I think of it and I am telling you.

Q. I am going to take what you have said and what has been disclosed here to-day of what was done ? A. I haven't finished telling you what I think of the statement.

Q. All right, tell me what you think of it, I won't tell you what I think of it.

MR. HEWARD: You asked him first.

THE WITNESS: I think that statement -- Mr. McRuer asked me is it true ? I think it is as true, or it is as true a statement as can be made in any statement in a few concise words of the whole situation that is embodied in that rather intricate inventory picture.

BY MR.McRUER: Q. Well now, let us analyze it now. "As to Merchandise and Supplies on basis of cost or market price, whichever is ~~1/2~~ lower". Now, raw cotton at cost or market price, the cost or market would be about 11 cents and it was put in at 6.4 ? A. Raw cotton does not come into supplies.

Q. As to merchandise, it comes into merchandise ? A. Yes.

Q. "As to merchandise and supplies on basis of cost or market whichever is lower." Now, I am starting to show you in the merchandise in the first place the raw cotton was not valued on the basis of cost or

market; it was valued on an arbitrary basis that existed since 1910, and you do not say so? A. It was valued at an arbitrary basis but not on the basis. You are using on and at as perhaps being synonymous.

Q. I want to know if there is anything wrong in my ons or ats ? A. I am just pointing that out. All I say is this is not worded as to merchandise and supplies at cost or market price.

Q. This financial statement is sent out to the shareholders; that goes to the public.

THE COMMISSIONER: Read what it says.

MR McRUER: "As to Merchandise and Supplies on basis of cost or market price, whichever is lower" ? A. Whichever was lower.

Q. "As to Merchandise and Supplies on basis of cost or market price, whichever was lower", and that is in under the following words: "As determined and certified by the Management and valued" -- the words "and valued" -- "(1) As to raw cotton at less than prevailing market price. (2) As to Merchandise and Supplies on basis of cost or market price, whichever was lower." Now, in the figure for merchandise that is carried in here of $2,310,524.41 that is a figure that was arrived at after taking out arbitrary discounts of $1,086,000. to begin with ? A. They are not all arbitrary. Some of them are related to the values.

Q. They are discounts ? A. Yes.

Q. There are certainly discounts that were taken off after you had arrived at the value based on the

market; it was valued on an arbitrary basis that

existed since 1910, and you do not say so? A. It

was valued at an arbitrary basis but not on the basi

lon are using on and at as yardsticks being synonymous.

. I want to know if there is anything wrong in

one or the? A. I am just putting that out.

.. I say is this is not worked as to wages paid

supplies at cost or market price.

.. This financial statement is sent out to the

shareholders; that goes to the public.

THE CHAIRMAN: Read what it says.

MR MOSS: "As to merchandise and supplies on

basis of cost or market price, whichever is lower"?

.. Whichever was lower.

.. "As to merchandise and supplies on basis of

cost or market price, whichever was lower", and that

in under the following words: "As determined and cer-

tified by the Management and valued" -- the words

"and valued" -- "(1) as to raw cotton at less than

[illegible]. [illegible] and

supplies on basis of cost or market price, whichever

was lower." Now, in the figure for merchandise that

is carried in here of $2,310,884.47 that is a figure

that was arrived at after taking out arbitrary dis-

counts of $1,088,000. to begin with? A. They

[illegible]

[illegible]

cost of the production ? A. Yes, that is right.

Q. Well now, let me see what was said in the general report. It is a long story this time. There is quite a lot about taxes. You dealt with the balance sheet.

"There are no striking changes in the Balance Sheet as of March 31st, 1936. In the face of fairly heavy expenditures on Capital Account, representing increases to fixed assets, the liquid position has been well maintained with a ratio of over five to one between current assets and current liabilities. Owing to the closing down of the Verdun plant last summer, and the transfer therefrom to other mills in the Company of machinery at depreciated values, the sum of $1,586,014.07 has been deducted both from Machinery Account and from Depreciation Reserve", and so on. Now, there are four or five pages of explanations to the shareholders about different things, including some comments about the Royal Commission, but there is nothing in here to indicate that your inventory was worth $2,700,000. more -- at least, $1,700,000. more than is shown on the statement, and nothing to indicate the amount of inventory reserve on the raw cotton although it is indicated that there was one. Well now, do you think it is quite fair to the shareholders, Mr. Gordon, to place before them and before the public a statement that is deficient in information as to what the actual value of the inventory is ? A. Well, sir, I don't

ount of the production ? ... Yes, that is right.

Well now, let me see what was said in the general report. It is a long story this time. There is quite a lot about them. You dealt with the balance sheet.

"There are no striking changes in the Balance sheet as at March 31st, 1936. In the face of fairly heavy expenditures on Capital account, necessitating increases to fixed assets, the liquid position has been well maintained with a ratio of over five to one between current assets and current liabilities. Owing to the closing down of the Verdun plant last summer, and the transfer therefrom to other mills in the Company of machinery at depreciated values, the sum of $1,986,014.07 has been deducted both from Machinery account and from Depreciation Reserve", and so on. Now, there are four or five pages of explanations to the shareholders about different things, including some comments about the Royal Commission, but there is nothing in here to indicate that your inventory was $4,000,000. at least.

$4,700,000. more than is shown on the statement, and nothing to indicate the amount of inventory reserve on the raw cotton although it is indicated that there was one. Well now, do you think it is quite fair to the shareholders, Mr. Jordan, to place before them and retain for yourself that is entirely

know how to answer that exactly. If the shareholder, if any group,or one or more shareholders is interested in finding out of course we would tell him. He only has to ask.

Q. It has taken us an awfully long time to find out although I don't blame you for that. I am speaking of the difficulty even of finding out ? A. You just got around to it though.

Q. I think you have been doing all you can to cooperate with us to find out ? A. The point, Mr. McRuer, is that even if a shareholder asks it might take us a little time to make that calculation, and even then it isn't complete.

Q. It is very easy to make one calculation, and that is what the discounts were ? A. Yes.

Q. There is no trouble about the $1,086,184.; that is a very easy calculation ? A. The $1,086,184., yes, that is there.

Q. Well now, have these reserves, inventory reserves, been properly disclosed and fully disclosed to the Taxing authorities of the Dominion ? A. I don't know, sir, whether they have ever taken that first -- particularly the first column there and ever made those calculations. I don't think they have.

Q. Probably the first time that has ever been done has been for the purpose of this Commission ? A. Well, in this thorough way, yes.

Q. Well, we will not send you a bill for that, but the next column dealing with the arbitrary

in finding out of course we would tell him. He only has to ask.

Q. It has taken us an awfully long time to find out although I don't blame you for that. I can appreciate of the difficulty even of finding out ?

A. You just got around to it though.

Q. I think you have been doing all you can to cooperate with us to find out ? A. The point Mr. Meighen, is that even if a shareholder asks it might take us a little time to make that calculation and even then it isn't complete.

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A. I don't know, sir, whether they have ever that first -- particularly the first column there and ever made those calculations. I don't think they have.

Q. Probably the first time that has ever been

A. Well, in this thorough way, Yes.

Q. Well, we will not send you a bill for that,

discounts, were they disclosed to the proper taxing authorities ? A. I think they have satisfied themselves that has been constant over the years.

Q. Have the amounts --

THE COMMISSIONER: Just a moment, what discounts do you refer to ?

MR.McRUER: That is the second column, it comes to $1,086,184.; that is the discounts applied in the mills ? A. Plus the summary discounts.

Q. Plus the summary discount applied at head office ? A. Yes.

Q. Now, you say you have -- A. Well, I only think that because they have never raised the question --

Q. Never raised the question ? A. Never raised it with me. I don't know whether they raised it with Mr. Webb or not in his time or with Mr. Daniels up to 1930 or 1931.

Q. Well, I rather suspect they did not raise it since you became General Manager or you would have known about it ? A. Oh yes, it has not been raised in my time.

Q. Then, in 1935 --

THE COMMISSIONER: You are talking of taxes. Does the statement set out the amount paid for taxes ?

MR.McRUER: Yes, there is quite a lot mentioned about taxes in this, my lord. There is a heading "Taxes".

"On our 270,000 Common Shares, we are attempting to earn an annual dividend of $5.00

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discounts, were they disclosed to the proper taxing authorities ? A. I think they have satisfied themselves that has been constant over the years.

Q. Have you discounts --

THE COMMISSIONER: Just a moment, what discounts do you refer to ?

MR.MORDEN: That is the second column, it comes to $31,086,184.; that is the discounts applied in the mills ? A. Plus the summary discounts.

Q. Plus the summary discount applied at head office ? A. Yes.

Q. Now, you say you have -- A. Well, I only think that because they have never raised the question --

Q. Never raised the question ? A. Never raised it with me. I don't know whether they raised it with Mr. Gordon or not in his time or with Mr. Ireland or the rest of them.

Q. Well, I rather suspect they did not raise it since you became General Manager or you would have known about it ? A. Oh yes, it has not been raised in my time.

Q. Then, in 1955 --

THE COMMISSIONER: You are talking of taxes, not the statement set out the amount paid for taxes ?

MR.MORDEN: Yes, there is a lot mentioned about taxes in this, my Lord. There is a heading "Taxes".

"On our 270,000 Co mon Shares, we are

per share. This calls for a return of 5.25% on the net worth of the Company. This year, before paying one cent in dividends to those who have a stake in the Company through their shareholdings, a total amount of $819,541.60 must be either paid out or set aside to meet the many and varied forms of taxation which exact tribute from manufacturers." That is kind of hard language, speaking of exacting tribute ? A. That is rendering unto Caesar the things that are Caesar's.

MR. GEOFFRION: Tribute is quite right.

MR.McRUER: From the manufacturers, I think tribute is exacted from us all.

MR. GEOFFRION: We all have different tributes, but not $800,000. each.

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CANADA

MR. McRUER: Q. "In the fiscal year just ended, we paid Excise Tax on our raw material amounting to $173,080.13." ? A. That is raw cotton.

Q. You include that in your cost? A. We try to.

THE COMMISSIONER: What is this?

MR. McRUER: The Excise tax, my lord.

THE COMMISSIONER: That is an indirect tax. That is passed on to the consumer.

BY MR. McRUER:

Q. But when you mention that you paid on raw material $173,080.13 in this statement, after all in your costing you attempt to pass that on to the consumer? A. We have to pass on all taxes to the consumer in the end.

Q. Do you pass on your income tax? A. It is in the profit in the first place and profit created by the sales value of the goods.

Q. In your system of costing do you include profit sufficient to cover income tax? A. Well, no, not full income tax. We try to cover part of our income tax, yes. There is a certain amount set up for income tax because we do not pay all our income tax on profit from manufacturing operations.

Q. But insofar as you pay income tax on profit from manufacturing operations you include it in your costing? A. Some years we have included it. What we would have to earn to meet our $5.00 dividends from manufacturing operations, yes, share of our $5.00 dividend but other years it has been smaller.

Mr. MORDEN: Q. "In the fiscal year just ended,
we paid Excise Tax on our raw material amounting to
$173,080.18." ? A. That is the cotton.
. You include that in your cost? A. We try t
THE COMMISSIONER: What is being
Mr. Morden: The Excise tax, my Lord.
THE COMMISSIONER: That is an indirect tax. That
is passed on to the consumer.
MR. MORDEN:
Q. But when you mention that you paid on raw
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consumer? A. We have to pass on all taxes to
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the profit in the first place and profit created by
the sales value of the goods.
Q. In your system of costing do you include profit
sufficient to cover income tax? A. Well, no,
not full income tax. We try to cover part of our
income tax, yes. There is a certain amount set up
for income tax because we do not pay all our income
tax on profit from manufacturing operations.
Q. But insofar as you pay income tax on profit
from manufacturing operations, you, share of our
[illegible] A. Some years we have included it.

Q. So that the net effect of this is that you do not pay your income tax, that the consumers of Canada pay your income tax.

MR. GEOFFRION: Do not you try and pass your income tax with your fees?

MR. McRUER: I have not been able to do it yet. I will see you after we get through, if you will tell me how to do it.

THE WITNESS: Every cost comes out of sales.

Q. It is not cost at all.

THE COMMISSIONER: There is no tax there unless there is a profit, and then what right have you to pass it on to other people, the consumers? A. Well, my lord, the only logical answer to that is if we have not made a profit then we do not get it into our sale prices. I am talking about cost - whether we sell our goods at cost or not is another question. Actually our sales price for year may not include that income tax at all.

THE COMMISSIONER: You see, to meet Mr. Geoffrion's case, if somebody paid Mr. Geoffrion ~~paid~~ income for him, he would not be much better because the Department would add that to its revenue and tax him again.

MR. GEOFFRION: Yes, but it would be less. The question is what right has your company to do that.

THE WITNESS: We only do that to show ourselves what our cost is going to be, when it comes down to selling price.

THE COMMISSIONER: That does not justify it.

THE WITNESS: Well, it is something we have to know,

looking ahead in our costs. After all, costs are looking ahead, what you have to sell goods at or what basis you have to sell goods at to carry on your business to make a profit and actually our sale prices may or may not include income tax, may not indude dividends even in many cases.

MR. McRUER: Q. Yes, but your sale prices over the period are designed to make a profit? A. Yes, and to pay income tax.

Q. And they are designed to include income tax? A. Absolutely.

Q. So that under your system of costing, with a protective tariff, you have arranged it so that the consumers of Canada consuming your goods will pay your income tax? A. That is making a speech about it. Here is what would happen if you did not do that - every year your income tax would come out of your surplus and you would go down and down.

Q. Your income tax would not come out of your surplus, it would come out of your profits before you distributed them to your shareholders? A. If your profits were only sufficient to pay your income tax and no more it would come out of your surplus.

Q. Do you think you should have tariff protection sufficient to make profits every year that will be sufficient to tax your consumers enough to pay your income tax? A. No, I don't say that. All I say is the prices we sell our goods at has to be such,

if we are to avoid taking our income out of our surplus, has to come out of profit.

Q. I would suggest that you do not pay so much on the stock that was originally sold for $500,000, if it is puzzling you how to do it? A. Well, I do not know that we need to drag in these extraneous matters.

Q. No, but may we take this then: that when you submitted costs in respect to the articles that you are in competition with, Japanese articles that you are complaining about in respect to this inquiry, those costs included sufficient to cover your income tax? A. No, not in those figures. It was left out, and that was left out in quite a few years. I said it is in, I say it is in partly in some years and other years left out altogether, even in our general cost figures.

Q. Your whole design in your business - in fixing your selling price you try to include sufficient to include income tax? A. Yes, include all charges, otherwise we lose money on operations.

Q. Then the income tax, so far as this Company is concerned, means nothing but a consumer tax? A. I do not think it means any differently for our Company than any other company.

Q. I want to know? A. Yes, for our company it is.

Q. Because it may be necessary for the Government to devise ways and means of looking after it?

if we are to avoid taking our income out of our capi
ness to come out of profit.

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figures.

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your selling price you try to include sufficient to
otherwise no loss money on operations.

. Then the income tax, so far as this Company
is concerned, forms nothing and a considerable
A. I do not think it enters at all largely for any
company than any other company.

. I mean by large? A. Yes, for any company
it is.

. Perhaps it may be necessary for me to

A. Well, ---

Q. If the Government levies an income tax on a large corporation like this it simply means that the poorest purchaser of your goods has shared in paying that income tax? A. Every purchaser, yes.

THE COMMISSIONER: Q. Did not some company tell us the other day that they did not pass the income tax on? A. Unless they took it out of their surplus account.

Q. No, they took it out of their profits where it belonged.

MR. McRUER: Q. They took it out of their profits? A. The profit was created by the sale of the goods.

Q. Oh yes, but you see you start off in your own statement on referring to taxes that your objective is $5.00 per share on your common stock and you add to that 25 cents - no, "This calls for a return of 5.25% on the net worth of the Company." So that the objective, the return to the shareholders fixed, then you fix your cost at 5.25% in order to accomplish that and that simply means the passing on of your income tax to the consumers? A. No, the 5.25 would be figured on the dividends alone there actually. If, unless in this particular year we had included some provision for income tax it would be in addition. That 5.25% profit for $5.00 per share--

Q. Yes, but --- A. we are not referring to income tax there at all.

A. Well, ---

Q. If the Government failed to derive its ~

large corporation like this it simply means that the

poorest purchaser of your goods has shared in paying

that income tax. [illegible] A.

THE COURT.[illegible]: Q. Did not some company fail

to the other day that they did not pass the income tax

A. Unless they took it out of their surplus

account.

Q. No, they took it out of their profits where it

belonged.

MR. MORTON: Q. They took it out of their profits?

A. The profit was created by the sale of the goods.

Q. Oh yes, but you see your start off in your own

statement on referring to these that your objective

is $5.00 per share on your common stock and you add

to that 5% cents - so, "this calls for a return of 5.

on the net worth of the Company." So that the object

one return to the shareholders fixed, then you fix

your cost at 5.5% in order to accomplish that and th

simply means the passing on of your income tax to the

consumers? A. No, the 5.5% would be figured on the

dividends alone there normally. If, unless in this

particular year we had included some provision for

income tax it would be in addition. That 5.5% profi

[illegible] $5.00 per share--

Q. Yes, but --- A. We are not referring to income

Q. I thought you meant this that in order to pay $5.00 per share you had to earn 5.25% on the net worth of the Company? A. Yes, in order to absorb income tax we would have to get a little more.

THE COMMISSIONER: Q. That is inclusive of the income tax? A. Yes.

MR. McRUER: Are you sure of that? A. We can check that very quickly.

Q. At any rate you had in your scheme of things in fixing your prices attempted to fix them so that you can pay $5.00 per share after having paid your income tax? A. Yes.

Q. Well then, I want to go on now to 1935 Annual Report. In this statement to theshareholders again you refer to raw cottons less reserve at $1,822,828.66. Merchandise and supplies, $2,360,789.57 and we have the same statement "As determined and certified by the management and valued (1) As to raw Cotton at less than prevailing market prices. (2) As to merchandise and supplies on basis of cost or market whichever was lower." You have a special heading of "Reserves": "Exchange on cotton purchases, Reserve for Depreciation. General Reserves" but you reserve against investments is not set out and your reserve against raw cotton is not set out? A. No, of course investments is shown on the assets. You get an indication in 1934 from the Surplus account - no, 1933, I think it is, that your Surplus Account was depleted by a million dollars to

investment reserve. Transferred to reserve for depletion investment - that is previous years, two years before.

Q. I want to go back to one of those years where this Inventory Reserve got very high. Take the year 1923, That is the year that it reached the high point?
A. 1923?

Q. Yes. According to Mr. Sheppard's calculation the total reserve at that time would be $2,918,991., of which $1,349,292. was in discounts and $1,569,699 in raw cotton in process. Now--- A. I am sorry, would you mind just repeating that?

Q. The total $2,918,991.

THE COMMISSIONER: What is that, total of what?

MR. McRUER: That is the total of the reserve as calculated by Mr. Sheppard of the goods in process, the deflation of them.

MR. GEOFFRION: That includes the mill?

MR. BEAUREGARD: No, does not include the mill.

MR. McRUER: Q. Your balance sheet for the year 1923 shows under the heading "Assets" raw cotton $1,352,228.03. What was your reserve against raw cotton in 1923? A. According to Mr. Howson's statement $1,500,000.

Q. $1,500,000? A. Yes, sir.

Q. So that the raw cotton valued in this Balance Sheet would be less than the total amount of the reserve?
A. Yes.

investment reserve. Transferred to reserve for

depletion investment - that is previous years, two k

below.

Q. I want to go back to one of those years there

Inventory reserve got very high. Take the year 19

That is the year that it reached the high point?

A. Yes.

Q. Yes. According to Mr. Shepperd's calculation

the total reserve at that time would be $2,319,397.

of which $1,249,252. was in discounts and $1,069,649

in raw cotton in process. Now--- A. I am sorry

Q. The total $1,319,941.

THE COMMISSION: What is that, total of what?

MR. MORGAN: That is the total of the reserve as

calculated by Mr. Shepperd of the goods in process,

the deflation of them.

MR. GOODRICH: That includes the mill?

MR. MORGAN: No, does not include the mill.

MR. MORGAN: Q. Your balance sheet for the year

1922 shows under the heading "assets" raw cotton

$1,3[illegible]. And for your [illegible]

ation in 1923? A. According to Mr. Morgan's

statement $1,500,000.

Q. $1,900,000? A. Yes, sir.

Q. So that the raw cotton valued in this Balance

Q. Well now, you had a reserve of $1,500,000.Mr

MR. GEOFFRION: What is the figure you say is mentioned in Howson's evidence?

MR. McRUER: $1,352,000.

Q. So that you had a reserve against raw cotton, fluctuations in the price of raw cotton, of $1,500,000 and the price of the total raw cotton was $1,352,000. A. After you have taken reserve.

Q. Is that after taking reserve off? A. Yes, that is Balance sheet figure, less reserve.

Q. It does not say, "Less reserve," ? A. No, it always was. Less reserve was indicated after 32 I believe.

Q. Yes, this is 1923? A. Yes, did not start until 32.

Q. You say that this figure here is the amount less the reserve? A. Yes, that is balance after taking off reserve.

Q. You are quite sure of that? A. Yes, sir.

Q. Well, there is not a word in the Balance Sheet to indicate that there is any reserve against raw cotton? A. No, there is not.

Q. Well, how can you justify that? Here is a statement of the value of raw cotton, $1,352,228. in 1923. How do you justify putting that out when the real value of the cotton on hand was $2,258,000? A. Well, I cannot just without going back---

THE COMMISSIONER: Are you saying that the raw cotton

ROBT. BRYDIE
Reporter
TORONTO - CANADA

Q. Well now, you had a reserve of $1,500,000.00

MR. CHOUINARD: What is the figure you say is result

ed in Howson's evidence?

MR. McHUGH: $1,884,000.

Q. So that you had a reserve against raw cotton,

fluctuations in the price of raw cotton, of $1,500,000

and the price of the total raw cotton was $1,382,000.

A. After you have taken reserve.

Q. Is that after taking reserve off? A. Yes,

that is Balance sheet figure, less reserve.

Q. It says Net, Less reserve, $

A. No, it always was. Less reserve was indicated as

SS I believe.

Q. Yes, this is 1935? A. Yes, did not start

until 36.

Q. You say that this figure here is the amount

less the reserve? A. Yes, that is balance after

taking off reserve.

Q. You are quite sure of that? A. Yes, sir.

Q. Well, there is not a word in the balance sheet

to indicate that there is any reserve against raw cott

A. No, there is not.

Q. Well, how can you justify putting that out when the

statement of the value of raw cotton, $1,384,230. in

1935. How do you justify putting that out when the

real value of the entire lot would be $1,382,000?

A. Well, I suppose just slightly going into---

on hand or the raw cotton on hand plus reserve --

MR. McRUER: No, this is just raw cotton in the bale, worth $2,800,000 and shown on the balance sheet at $1,352,000.

THE COMMISSIONER: About a million and a half less.

MR. GEOFFRION: Yes.

THE WITNESS: It is million and a half reserve that makes it less and Mr. McRuer wants to know why we have a million and a half reserve there. One justification may have been - I have not all the facts in front of me, but that value of $2,800,000, which by deduction we arrive at as thevalue before reserve is taken off, may have beenthe higher cost or market.

Q. What is the year? A. 1923. I would have to study the trend.

Q. The market was high ? A. I don't know whether high of March 31, I am not sure. I would have to study that.

MR. McRUER: The lowest that it reached was 20.35, highest 31.30. Went up next year. The lowest next year was 23.50 and the highest 37.65, and then started to decline. The annual average for 1922,'23 was 26.30? A. Here is what happened that year from our angle. We buy most of our cotton in October, November and December and in that year, the year ending March 31, 1923, in October 1922 say the average value for month was 21.11. November 20. January 27, and March 30.21. Therefore taking our value at Market of March 1st in

on hand or the raw cotton on hand plus reserve --

MR. MONK K: No, this is just raw cotton in t
bale, worth $2,800,000 and shown on the balance sheet
$1,248,100.

THE COMMISSIONER: About a million and a half I

MR. CHOFFIN: Yes.

THE COMMISSIONER: It is million and a half reserve tha
makes it less and Mr. Monk wants to know why we hav
a million and a half reserve there. One justificat
may have been - I have not all the facts in front of
out that value of $1,800,000, which by deduction we
arrive at as the value before reserve is taken off, wa
have been the higher cost or market.

Q. What is the year? A. 1928. I would hav
to study the trend.

Q. The market was high? A. I don't know wh
high of March 31, I am not sure. I would have to s
that.

MR. MORRISH: The lowest that it reached was 20.35
highest 31.30. Went up next year. The lowest next
was 25.50 and the highest 37.65, and then started to
decline. The annual average for [illegible]

Q. Here is what happened that year from our angle.
buy most of our cotton in October, November and De
ber and in that year, the year ending March 31, 192
is right that say the average value for month was
4.11. November 26. January 27, and March 30.31.

1923, we had evidently inflated our value quite a bit above cost because our cost ---

Q. Are you sure you did take it at market? A. Yes, that is right, and our cost would have been average, same average for months of October, November and December, and possibly January and a little bit in February but it was all a rising trend. That seems to be the picture.

Q. And your sales, of course, that would be made would be made when the rise in prices occurred due to the rise in raw cotton - you would charge stuff at the higher prices? A. Well, it would depend to some extent on how our lists were issued. They day-to-day sales would be on manufactured lines, yes.

Q. Take stock manufactured and in process - it is shown in your balance sheet at $1,337,684.94. According to Mr. Sheppard's calculation that should be increased by $2,918,000? A. Yes.

Q. You see that year your inventory was worth $4,400,000 if calculated on this higher basis? A. We have $7,432,000, if you put back the reserve.

Q. It was worth about $4,400,000 more than was shown on the balance sheet? A. It was worth difference between 7.4 and 4.1. The difference was $3,918,000 I presume. $2,918,000 was the total and you have to add a million and a half. Our cotton reserve would be 4.4.

Q. $4,400,000 more shown on the Balance Sheet.

ROBERT BRYDIE
CHARTERED ACCOUNTANTS
CANADA

How do you think people who are interested in how a company is getting along, whether they are employed in the Government or investors or whoever they are, can tell what it all means? A. You have not got quite the whole. You say it is worth that. It is not worth that much more based on the lower cost because you have your cotton at market and that $1,500,000 which we have included in the total reserve, but a considerable portion may have been needed to margin that cotton.

Q. I will throw off the $400,000 for that?

A. If you allowed 4 cents on the pound - I would have to know the total poundage of inventory at that time, might have been 8,000,000 pounds - $800,000.

Q. Throw off $800,000 as a rough calculation and that will leave it $3,600,000 that your inventory was worth over and above what is shown on the Balance sheet. Now, that is a very consequential sum in looking at a balance sheet. Now, these balance sheets were sent annually to the Income Tax Department? A. Well, they were sent along with their forms, yes, as part of the return. There is a lot more detail in the inventory, that just accompanies the form.

Q. Now, if your income tax was worked out on the basis of taking your inventory - just take that year, for instance, at cost or market, whichever is the lower, your profits are going to be increased tremendously that year? A. Well, of course you have got

company is getting along, whether they are employed
in the Government or investors or whatever they are,
can tell what it all means?

Not quite the uncle. You may it is worth that.
It is not worth that much more based on the lowest cent
because you have your option at market and that
$1,500,000 which we have included in the total reserve
but a considerable portion may have been needed to mar
that cotton.

. I will throw off the $400,000 for that
. If you allowed 4 cents on the pound - I would have
know the total poundage of inventory at that time,
might have been 8,000,000 pounds - $300,000.

. Throw off $400,000 as a rough calculation and
that will leave it $5,600,000 that your inventory rep
Now, that is a very conservative way in looking at
balance sheet. Now, those balance sheets were sent
were sent along with their forms, yes, as part of the
return. There is a lot more detail in the inventory
that just accompanies the forms.

assumption in there about value of our inventory which I do not think the Income Tax people worked on at all. That is predicated there ---

Q. Which, cost or market, whichever is the lower?

A. No, the value of goods in process and in packed stock, what value should be attributed to them.

Q. You cannot expect the Income Tax Department to work on an arbitrary value that has been established for 30 years in your --- A. I think they do. I think they are perfectly satisfied as long as the value is not changed, as far as I know.

Q. As long as it is never changed? A. Yes.

Q. If you maintain that then you can by running up your inventory, absorb profit in a profitable year and have it available by running down the inventory in an unprofitable year? A. No.

Q. And use that to absorb losses? A. No, I think you have got to--- When you say "Profitable year," the only place that apparently would pay you to run up inventory wouldbe in a year where cotton was high.

Q. But you could get big discounts by having a heavy inventory? A. The size of theinventory does affect your discount, yes.

Q. The amount that you absorb out of the profits of the year will be affected by the size of the inventory? A. Yes, to some extent.

Q. Now, as I understood you to explain to us earlier, you bought futures against sales? A. At times.

assumption in there about value of our inventory which
I do not think the Income Tax people worked on at all.
That is predicated there ---

Q. Which, cost or market, whichever is the lower?

A. No, the value of goods in process and in packed etc
what value should be attributed to them.

Q. You cannot expect the Income Tax Department
to work on an arbitrary value that has been established
[illegible] A. I think they do.
I think they are perfectly satisfied as long as the va
is not changed, as far as I know.

Q. As long as it is never changed? A. Yes.

Q. If you maintain that then you can by running up
your inventory, absorb profit in a profitable year
and have it available by running down the inventory
in an unprofitable year? A. No.

Q. And use that to absorb losses? A. No, I
think you have got to--- [illegible] only "Profitable Ye
the only place that apparently would pay you to run
up inventory would be in a year where cotton was high.

Q. But you could get big discounts by having a
[illegible] A. [illegible]
[illegible]

Q. Yes, to some extent.

Q. Now, as I understand you to explain to me why

No, sold futures - Yes, by futures against sales. Yes, you are right, if you are not buying raw cotton. If you are booking orders and it happens to be a time when you are not operating raw cotton market and buy actually it might be good policy to buy futures at that time.

THE COMMISSIONER: Q. You hedge that way? A. Yes, you hedge you r sale price of the goods to that extent.

MR. McRUER: Q. Well, if you do that then there is no speculative feature in the raw cotton on hand? A. Oh, yes, but you cannot get a perfect hedge by any means. You can only place your hedges-if you are buying cotton, buying futures, you have to buy it in future months and the futures market may be manipulated so that months get out of line and then you cannot hedge, that is actual premium you pay on your cost---

Q. For instance, to-day you sold a quantity of grey goods, the cotton in that quantity of grey goods amounts to $100,000. You recon your sale price on the basis of the market to-day. Then you buy cotton? A. You buy futures.

Q. You buy futures to-day. Well, You have replaced the cost of your cotton at once on the basis on which you sold? A. Yes, let us be a little more specific. You sell goods, say, for delivery next May at a price that you name to-day, and which you

ROBT. BRYDIE
AGAWA - ONTARIO

fix on the market. You go out and you buy, say, March futures to-day to protect yourself. Then you come along to March to buy the actual cotton. You need a couple of months to make the cotton into goods, so you wait until March to get the benefit of your carrying charge in the futures account and go out and buy the actual cotton. Well, by that time ---

THE COMMISSIONER: You take the delivery in March?

A. You do not actually take delivery. You close out your hedge. You go out and buy raw cotton in March through your own agency or through some shipper or some merchant.

MR. McRUER: Q. That is a different thing to the future? A. I know, but you complete the transaction in your futures by selling your futures.

Q. You are gambling then, are not you? A. No, that is the whole function of the hedge. You cancel your future transaction and replace it on actual. That is the whole---

Q. As I understood it - I may not understand it at all.

THE COMMISSIONER: Is there a clearing? A. Yes.

Q. Well then, the futures would not cost you any more than what you bought them for. Suppose you buy it in November for March delivery, the price is fixed in November what it is going to cost you in March? A. No, you buy March option and if--

Q. Say now in November? A. Yes, and you buy through broker.

AUGUST BRYDIE
PHOTOGRAPHIC

fix on the market. You go out and buy 500
Marson futures to-day to protect yourself. Then you
come along to Marsh to buy the actual cotton. You pay
a couple of months to make the cotton into goods,
so you will wait until to get the benefit of your
carrying charge in the Marsh account and go out and
buy the actual cotton. Well, by that time ---

MR. MARSH: Now, you take the delivery in March.

A. You do not actually take delivery. You close out your
hedge. You go out and buy raw cotton in March
through your own agency or through some subject or
some corporation.

MR. MOULE: Q. That is a different thing to the
futures. A. I know, but you complete the transa-
ction in your futures by selling your futures.

Q. You are speaking then, are not you? A. No,
that is the whole function of the hedge. You cannot
your futures transaction and [illegible] it be carried.

MR. [illegible]---

Q. As I understood it - I may not understand it
at all.

THE COMMISSIONER: Is there a clearing? A. Y
Q. Well then, the futures would not count
any more than what you bought them for. Suppose
buy it in November for March delivery, the price is
fixed in November but it is going to cost you in
March. A. No, You buy March option and it-

Q. And it is quotation of March prices? A. Yes. You may buy March to-day at 11.65. That is charged up to you on the books of the broker.

Q. And you have to take delivery in March? A. Yes.

Q. And the other person has to have it there in March for you? A. Yes, but what actually happened. What you have to do to get rid of that ownership of the futures you have to sell those March futures, that 100 bales of March futures in March before it goes off the Board, and you may sell it, the market may have gone up to 11.80 let us say, and you sell it, and you make a profit of 20 points on your futures and then you go out and buy your actual cotton on the same market and you are back to your 11.60, but what it has not covered is the premium you have got to pay on your future market for your particular grades of cotton and that may vary from one to three cents. That is what you cannot hedge, you cannot ---

MR. McRUER: Q. You do not need all these reserves that we have here to protect against that, 33% reserve, and dealing with your cotton on the lowest basis on which it has been valued in 30 years and that sort of thing, you do not need all that protection to protect against the variation in the grey? A. I do not know which particular part of the inventory you are putting up. I was thinking---

THE COMMISSIONER: Q. Is raw cotton graded, by the

Q. And it is quotation of March prices? A. Yes.
You may buy March to-day at 11.85. That is charged
up to you on the books of the broker.
Q. And you have to take delivery in March?
A. Yes.
Q. And the other person has to have it there in
March for you? A. Yes, but what actually happens
that you have to do to get rid of that ownership of th
futures you have to sell those March futures, that
100 bales of March futures in March before it goes ou
the Board, and you may sell it, the market may have
gone up to 11.80 let us say, and you sell it, and you
make a profit of 80 points on your futures and then y
go out and buy your actual cotton on the same market
and you are back to your 11.60, but what it has not
covered is the premium you have got to pay on your
future against the spot position already at stake
and that may vary from one to three cents. That is
what you cannot hedge, you cannot ---
MR. MORGAN: Q. You do not need all these treasu
thing, you do not need all that protection to protec
against the hazards in the spot? A. I do not
realize which particular part of the insurance you are
getting at. I see nothing---

way? A. Yes, one hundred distinctions of raw cotton.

Q. Graded formarket purposes? A. Yes, on and off the standard New York quotations of each month. At the present time December is the cover month and most cotton people when they sell us cotton sell us December.

MR. McRUER: Q. Well, do you sell, if you are overloaded, sell on the futures market? A. We have done so.

THE COMMISSIONER: There is nothing to prevent that.

MR. GEOFFRION: If we did not our profits might be less.

MR. McRUER: You may make them less.

MR. GEOFFRION: Well, that is a legitimate transaction anyhow.

Q. It accompanies your business? A. Yes, it is essential.

Q. You cannot be sure that you will always buy just sufficient futures and no more.

MR. McRUER: Q. Mour business may go up and you want more and may fall away and you do not want as much as you have bought? A. Yes, that is right.

Q. Now, there is one question I want to ask you in reference to the insurance appraisal of the plant. There was an insurance appraisal made on your plant in 1936, was there not? A. On all our plants, I think all the mills were visited between the 1st of

the New year and April.

Q. Who made that appraisal? A. A man called Blackwood.

Q. Was he a man employed by the Insurance Companies or by you? A. No, he is one of the staff of the Central Appraisal Office, with all factory mutual companies in New England State.

Q. And it is an appraisal made for the purpose of seeing what their insurable value is? A. Yes.

Q. So that it was a matter that was done with some serious consideration - your insurance was based on it? A. Yes. They set out that they do not bind themselves to pay those amounts in case of loss by fire, that the loss be determined at the time the fire occurred, but that is to give you an idea of the limit you can insure your plant up to.

Q. And we have this appraisal that was submitted to Mr. Brickenden and that was submitted to Mr.Howson this morning - I think your plant was appraised at $20,000,000? A. Insurable value apart from land and ---

Q. It was appraised in that way as the insurable value of the plants at the present time? A. Yes,sir.

BY MR. GEOFFRION: Q.

Q. Well, you have been questioned about your reserves, the amount of the reserves that you require against your inventory, including the raw cotton and material in process and material manufactured and

the New York and April.

Q. Who made that appraisal? A. A man called

Q. Was he a man employed by the Insurance Company

or by you? A. No, he is one of the staff of the

Central Appraisal Office, with all factory mutual

companies in New England state.

Q. And it is an appraisal made for the purpose of

seeing what their insurable value is? A. Yes.

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insure your plant up to.

Q. And we have this appraisal that was submitted

to Mr. Brickenden and that was submitted to Mr. Howson

this morning - I think your plant was appraised at

$80,000,000? A. Insurable value apart from

land and --

Q. It was appraised in that way as the insurable

value of the plants at the present time? A. Yes, sir.

Q. Well, you have been questioned about your

reserve, the amount of the reserves that you requir

supplies. The reserve you require that is a matter of opinion? A. Yes, sir, to some extent anyway.

Q. Leaving all these assets at their market value on the particular day of your Annual Report, would that be considered according to yougood practice? A. No, when I said it is a matter of opinion - it is a matter to some extent of the facts of how those particular values were set, particularly in regard to raw cotton because that is the only one that changes, except the supplies were taken at cost as well or at market, supplies taken at market, and a matter of opinion so far as anything in process or made or has not been sold is doubtful value.

Q. You told us what you have been making or have made it may be sold soon or may be sold later or may be not sold at all, and you do not know at what price? A. Yes. Very little not sold at all at the end.

Q. You have to sacrifice if necessary? A. Yes, but some things have been put down the drain at times.

Q. At all events it is the reason why you do not put your raw cotton that has been incorporated in these at the market prices for the time being?

A. We start off with the market price but we apply fixed reserve against that.

Q. You do not put it at that sum? A. No, the effect is not to put it at the market price. Two contingencies there. One is that the actual cost

of that cotton represented in the bale on March 31 may have been below market price and the second contingency, even lower than the cost we bought it at March 31, it may still go lower.

Q. Taking the period with which you are familiar, do you consider that the reserve you are setting up is required from the point of view of good practice? A. Well, I took Mr. McRuer's figures that he gave me for 1936 on the basis of Mr. Sheppard's calculation and adding back the reserve, I got $7,750,000 and I took---

MR. McRUER: Is that 1936? A. Yes. And then the total of the reserve was $2,719,000 - 35%. No, it is a matter of opinion, I do not think our reserves have been excessive over the period that I have had particular connection with.

MR. GEOFFRION: Q. Dealing now with raw cotton I suppose it is obvious the higher the market the more dangerous the position is and higher the reserve you require? A. Yes, your swing - when you get up to 20-cent cotton your market is liable to swing two cents than when it is down, when you are lower. 5 cents, it can only go 5 cents when it is wiped out.

Q. Dealing with the income tax question I want to suggest - I may be wrong - that the matter is not one as substantial as it looks. You set out to try and set your prices to try and earn a given dividend on your stock - say $5.00 as you stated in the report

10

15

20

25

30

of 1936, is it? A. Yes, that is one of the things we try and earn, yes.

Q. Now, I do not want to complicate my question by elaborate figures so I take the liberty of suggesting that during the time when the income tax was 10%, to make it easier, then you would have to earn $5.50 to pay $5.00 dividend? A. Yes.

Q. If you try to earn only $5.00, the only difference is you would have $4.50, and that is all approximately after you keep your income tax out. In other words, if you want to pay $5.00 you have to earn $5.50?

A. If you only earned the $5.00 and you have to pay--

Q. Your income tax, we will put it 10%, you would have $4.50 for dividends? A. Yes, you only pay $4.50 for dividends or pay $5.00 and take the difference out of your surplus.

Q. And that is all there is in it? A. Yes.

Q. Let us take that 50 cents, income tax, 10% of your net earnings applicable to your stock. Have you an idea the extent of the change in the tariff that would be needed to take care of that 50 cents, according to your figures there. It has been suggested by my friend that tariff should be altered to prevent you passing your income tax over to the consumer and ---

MR. McRUER: That is not my only suggestion.

MR. GEOFFRION: No?

THE WITNESS: First of all you have to relate that $5.00 to your sales values, that is the first thing

of 1939, is it? A. Yes, that is one of the things we try and earn, yes.

Q. Now, I do not want to complicate my question by elaborate figures so I take the liberty of suggesting that during the time when the income tax was low, to make it easier, then you would have to earn $5.50 to pay $4.50 dividend? A. Yes.

Q. If you try to earn only $5.00, the only difference is you would have $4.50, and that is all spread mostly after you keep your income tax out. In other words if you want to pay $5.00 you have to earn $5.00?

A. If you only earned the $5.00 and you have to pay--

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A. That is not my only suggestion.

MR. CHEVRIER: But

THE CHAIRMAN: First of all you have to relate that

you have got to think about in this particular connection.

Q. Exactly, I am suggesting here is 10% of your net profit and from your knowledge of what your gross sales are, what your prices are and what proportion of your gross sales that 10% of your net profits would be, I am asking you whether there would be any significant change possible in the tariff to take care of that. I think if you figure it out you will find it is not a fraction of a cent? A. Our total dividend at $5.00 share, dividing that by our production, it would be about a third of a cent a pound would be the cost of that.

Q. Not a third of a cent a pound? A. A third of a cent a pound or divide that by average of 5.2 a pound would be 1/15 cents a pound.

THE COMMISSIONER: I don't know, not unless you are equating production with prices.

MR. GEOFFRION: I am meeting the suggestion that because the company wants to earn a certain dividend, pay a certain dividend, has to try and make a profit of 10% or 12% plus that dividend, that therefore the tariff should be altered to make it earn a profit of $4.50. It is not a practical change in the tariff.

MR. McRUER: 30 cents a pound is. You have a specific duty of 4 cents a pound and you seem to think 4 cents a pound is an important matter and I think 30 cents a pound is more important matter.

ROBT. BRYDIE
CHARTERED STENOGRAPHER
TORONTO - CANADA

you have got to think about is this particular ques-
tion.

Exactly, I am suggesting here is 10% of your
net profit and from your knowledge of what your gross
sales are, what your prices are and what proportion
of your gross sales that 10% of your net profits will
be, I am asking you whether there would be any signi-
ficant change possible in the tariff to take care of
that. I think if you figure it out you will find i
is not a function of a cent? A. Our total divi-
dend at $3.00 share, dividing that by our production,
it would be about a third of a cent a pound would be
the cost of that.

Q. Not a third of a cent a pound? A. A third
of a cent a pound or divide that by average of 8.8
a pound would be 1/15 cents a pound.

MR. COMMISSIONER: I don't know, not unless you
equating production with prices.

MR. CHAPMAN: I am meeting the suggestion that
because the company wants to earn a certain dividend,
pay a certain dividend, has to try and make a profit
of 10% or 15% plus that dividend, that therefore the
tariff should be altered to make it earn a profit of
10%. It is not a practical change in the tariff.

MR. [illegible] Q. You have a
specific duty of 4 cents a pound and you mean to sugg
4 cents a pound is an important matter and I think

THE WITNESS: Depends on which tariff you are looking at. There is no specific duty against Great Britain.

Q. Well, you did object, did not you, to the reduction of cent a pound? A. 1.8. They wiped out 1.8.

Q. You objected to the wiping out of 1.8 specific duty.

THE COMMISSIONER: I think the question raised about income tax, if it were to lead to any adjustment, would not take the form of a reduction of a fraction of a cent on the specific duty.

MR. GEOFFRION: No, but the question is - all that is involved in the question put there is to get $5.00 dividends you must earn $5.50, and if you try to get $4.50 dividend you have to earn $5.00 - that is right? A. Yes.

Q. Now, I do not know if I should refer now to this Exhibit that has been offered and not filed, but I notice - assuming these figures to be correct - in 1916 the total of the two columns or the suggested reserve would have been $1,278,000, and in 1936 $1,719,709. So that there has been very little change during those 20 years? A. Well---

Q. There has been fluctuations? A. Yes, from beginning to end apparently. I have not those figures in front of me. So far as the actual discounts are concerned there has been very little fluctuation and

looking at. There is no specific duty against Greek

pitchers.

Q. Well, you did object, did not you, to the

reduction of cent a pound? A. B.B. They wiped

out I.B.

Q. You objected to the wiping out of I.B

entirely then?

THE COMMISSIONER: I think the question raised on

income tax, if it were to lead to any adjustment, would

not take the form of a reduction of a fraction of a c

on the specific duty.

MR. GREGORY: No, but the question is - all my

is involved in the question but there is to a t po.C

dividends you must earn $6.50, and if you try to get

$4.50 dividend you have to earn $9.00 - that is rig

A. Yes.

Q. Now, I do not know if I should refer now to

Exhibit that has been offered and not filed, but I

article - somewhere there figures to be correct - in

[illegible] one total of the two columns or the

reserve would have been $7,578,000, and in 1928

$7,744,444. We have had some [illegible]

[illegible] in 1929 --

Q. There has been fluctuations? A. Yes,

beginning to end apparently. I have not those

in front of me. So far as the actual disposition

[illegible] there has been only a little fluctuation

the fluctuation of course is explained by the size of the inventory itself.

Q. Taking those 20 years together, starting in 1917, would the sum of the profit to the Income Tax Department be very much altered if you had not had such reserves as these? Would your annual profits --- A. Well, he way it would work, sir, would be that in --- As soon as you come back to the same cotton values you are back to where you started, and it would not have been changed, no.

Q. There may be some years more and some years less but the total would be approximately the same?

A. Whenever you struck the same cotton value you started at you would have paid in effect the same tax, it seems to me.

MR. McRUER: That depends whether you made a loss or not, If you made a loss in the business then you are able by reducing your inventory to draw on the inventory reserve, so to speak, to make up that loss and when you made a profit extend your inventory and absorb the profit - then it would make a difference.

THE WITNESS: I see what you mean. You mean make up your loss but not make it above par, you mean.

Q. Or apportion, not bringing it up to par.

MR. GEOFFRION: Q. Have you heard of that taking place in your books? A. No, I have never heard of it, never came across it.

Q. Take your reserve of 1921. Take your 1921

the fluctuation of course is explained by the size of the inventory itself.

Q. Taking those 50 years together, starting in 1917 would the sum of the profit to the Income Tax Department be very much altered if you had not had such reserves as these? Would your annual profits --

A. Well, he may it would work, sir, would be that in --- As soon as you come back to the same cotton values you are back to where you started, and it would not have been changed, no.

Q. There may be some years more and some years less but the total would be approximately the same?

A. Whenever you struck the same cotton value you started at you would have paid in effect the same tax, it seems to me.

MR. HOWARD: That depends whether you made a loss or not, If you made a loss in the business then you are made by reducing your inventory to draw on the inventory reserve, so to speak, to make up that loss and when you made a profit extend your inventory [illegible]

THE WITNESS: I see what you mean. You mean make a loss but not make it above par, you mean.

Q. Or apportion, not bringing it up to par.

BY MR. HOWARD: Q. Have you heard of that testing [illegible]

A. No, I have never heard [illegible]

balance sheet, I note at that time the market price of cotton was up to 40 cents, is that it? A. 1921?

Q. Yes.

MR. McRUER: The highest point was 40 cents in 1921. To be exact it was March 20th, that cotton was at 40 cents.

MR. GEOFFRION: Q. But my friend wishes all your cotton should have been carried without any reserve apparently at that price.

MR. McRUER: No, I don't suggest that at all.

MR. GEOFFRION: What do you suggest?

MR. McRUER: I am not suggesting any impropriety in carrying all the reserves you like as long as you show them.

MR. GEOFFRION: Well, that is quite different. I thought there was a question suggested they were excessive.

MR. McRUER: No, it is the secrecy bothers me.

THE COMMISSIONER: First, that the Government for the purpose of tariff and the public, who have to support tariff pressure, should know exact condition of those companies, what the real profits are. The second, of course is the Income Tax Department who should know what the profits are. However we will adjourn now.

--

-- The Commission adjourned at 5.05 P.M. to resume at 10.30 tomorrow morning, Nov. 18th, 1936.

ROBT. BRYDIE
CHARTERED STENOGRAPHIC REPORTER
TORONTO - CANADA

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary,

N I N E T Y - T H I R D D A Y

(November 18, 1936)

Robert Brydie,
Official Reporter.

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

HON. MR. JUSTICE W.F.A. TURGEON,

Commissioner,

A.S. Whiteley, Secretary.

Appearances:

J.C. McRuer, K.C. and E. Beauregard, K.C.	Commission Counsel
J.P. Lanctot, K.C. and R.L. Kellock, K.C.	For Special Committee on Primary Textile Industries.
C.G. Heward, K.C. Aime Geoffrion, K.C. and C.T. Ballantyne,	For Dominion Textile Company.
S.G. Dixon, K.C.	For Courtaulds Limited.
L.A. Forsyth, K.C.	For Canadian Celanese Limited, and Canadian Silk Products Limited.

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ROBT. BRYDIE

Ottawa, Ont.,
Wednesday, November 18,1936.

-- The Commission resumed at 10:30 A.M.

E. J. HOWSON, recalled.

THE COMMISSIONER: Are we ready to go on, Mr. McRuer ?

MR.McRUER: Yes, my lord.

THE COMMISSIONER: Well now, is Mr. Geoffrion through with Mr. Gordon ?

MR. GEOFFRION: Yes, my lord, I agreed with Mr. McRuer that Mr. McRuer had no re-examination so I released Mr. Gordon.

BY MR.McRUER: Q. Now, to continue with Exhibit No.917, the statements affecting the affairs of the Dominion Textile Company Limited; we were discussing page 13 yesterday in reference to the percentage of net revenue to the common stock equity.

THE COMMISSIONER: What exhibit are you referring to ?

MR. McRUER: 917, my lord.

THE COMMISSIONER: What page ?

MR.McRUER: Page 13, and there was some discussion as to whether your figures at the foot of the page under the heading "Percentage of Total Net Revenue to Common share equity" included -- or was before deduction of income tax or not ? A. I find it was before deduction of income tax.

MR. GEOFFRION: Where is that ?

MR.McRUER: The last line.

-- The commission resumed at 10:30 A.M.

THE COMMISSIONER: Are we ready to go on, Mr.

MR.MCMURTRY: Yes, my lord.

THE COMMISSIONER: Well now, is Mr. Gouffrion

MR. GOUFFRION: Yes, my lord, I agreed with Mr. McMurtry that Mr. Mowat had no re-examination so I released Mr. Gordon.

BY MR.MCMURTRY: Q. Now, to continue with Exhibit No.917, the statements affecting the affairs of the Dominion Textile Company Limited; we were discussing page 13 yesterday in reference to the percentage of net revenue to the common stock equity.

THE COMMISSIONER: What exhibit are you referring to ?

MR. MCMURTRY: 917, my lord.

THE COMMISSIONER: What page ?

MR.MCMURTRY: Page 13, and there was some discussion as to whether your figures at the foot of the page under the heading "Percentage of Total Net Revenue to Common Share Equity" included -- or was before deduction of income tax or not ? A. I find it was before deduction of income tax.

MR. GEOFFRION: The second last line also is before, is it ? A. The last line.

Q. What about the second last line; are they both the same principle ? A. Total net income before --

Q. The one just above is not the same principle, before deducting income tax ?

BY MR.McRUER: Q. They are both before deduction of income tax ? A. Yes.

MR. GEOFFRION: Both lines.

BY MR.McRUER: Q. Now, Mr. Howson, I wish to make a comparison of the return that this company got on the capital invested in its own operations as compared with the capital invested in operations outside the company, that is, any enterprise that it had seen fit to invest in. Now, you have prepared a table that will show that, have you not ? A. Yes.

Q. Now, in 1927 --

MR. GEOFFRION: You have no copies of that ?

MR.McRUER: No, I will have some copies made. In 1927 the net revenue --

THE COMMISSIONER: Pardon me, are you reading from a new document ?

MR.McRUER: It is a working paper really of Mr. Howson's.

THE COMMISSIONER: You are not putting it in ?

MR.McRUER: I think I will have it all set up on an exhibit later on.

THE COMMISSIONER: It is not in shape to put in.

MR.McRUER: Not in shape to put in at the moment.

In 1927 the net revenue from trading -- the percentage of net revenue from trading to the common stock equity was how much ? A. That is after payment of bond interest and preferred stock dividends.

Q. Yes, after payment of bond interest and preferred stock dividends ? A. 19 per cent

BY THE COMMISSIONER: Q. That is the percentage of net revenue to what, did you say ? A. The common stock equity, from trading operations.

MR.McRUER: That is after paying all prior claims as to interest.

BY THE COMMISSIONER: Q It is the net revenue from trading ? A. From trading operations.

Q. How much ? A. Manufacturing and trading operations.

Q. How much ? A. 19 per cent.

BY MR.McRUER: Q. And the income from investments ? A. 2.4 per cent.

Q. Now, that would be 2.4 per cent of the total amount invested in these investments ? A. Yes, in investments and subsidiary companies.

BY THE COMMISSIONER: Q. In investments in subsidiary companies ? A. In investments and subsidiary companies.

Q.That is to say, you classify their interest in subsidiary companies as if it was an outside investment ? A. In relation to this company's operations.

Q. Well, I guess that is right.

BY MR.McRUER: Q. Then, going to the year 1928 the net revenue from trading -- the ratio of net revenue from trading to common stock equity was how

In 1957 the net revenue from trading -- the percentage of net revenue from trading to the common stock equity was how much ? A. That is after payment of bond interest and preferred stock dividends.

Q. Yes, after payment of bond interest and preferred stock dividends ? A. 19 per cent

BY THE COMMISSIONER: Q. That is the percentage of net revenue to what, did you say ? A. The common stock equity, from trading operations.

MR. GOUIN: That is after paying all prior charges as to interest.

BY THE COMMISSIONER: Q. It is the net revenue from trading ? A. From [illegible].

Q. How much ? A. Manufacturing and trading operations.

Q. How much ? A. 19 per cent.

BY MR. GOUIN: Q. And the income from investments ? A. 5.6 per cent.

Q. Now, that would be 5.6 per cent of the total amount invested in these investments ? A. Yes, in investments and subsidiary companies.

BY THE COMMISSIONER: Q. In investments in subsidiary companies ? A. In investments and subsidiary companies.

Q. That is to say, you classify their interest in subsidiary companies as if it was an ordinary investment ? A. In relation to this company's operations.

Q. Well, I guess that is right.

[illegible]

much ? A. 10.4.

Q. When I say common stock equity I mean the common stock equity employed in operations as distinct from common stock equity employed outside of operations in investments in other companies. A. Yes.

Q. Now, the ratio to common stock equity employed in investments in other companies was how much ?

MR. GEOFFRION: I could not hear the first answer. How much was it in trading ? A. 10.4 per cent.

BY MR.McRUER: Q. And outside the company ? A. 5.2 per cent.

Q. In 1929 ? A. 8.16 per cent on trading and 2 per cent on investments.

Q. 1930 ? A. 7.3 per cent on trading and 3.5 per cent on income from investments.

Q. 1931 ? A. 3.9 per cent on trading and 4.4 per cent on investments.

Q. 1932 ? A. 4.4 per cent on trading and 3.5 per cent on investments.

Q. 1933 ? A. There was no return on trading and there was a return of 3.9 on investments.

Q. There is a slight loss in 1933 of .1 per cent ? A. Yes.

Q. 1934 ? A. 10.3 per cent on trading and 3 per cent on investments.

Q. 1935 ? A. 7 per cent on trading and 3.2 per cent on investments.

Q. 1936 ? A. 5.4 per cent on trading--

BY THE COMMISSIONER: Q. 5.4 ? A. 5.4 per

A. 10.4.

. When I say common stock equity I mean the co
mon stock equity employed in operations as distinct
from common stock equity employed outside of operati
in investments in other companies was how much ?

MR. CHOQUETTE: I could not hear the first answe
How much was it in trading ?

A. 10.4 per cent

BY MR. MCILRAITH: . And outside the company ?

A. 5.2 per cent.

. In 1980 ?

A. 9.13 per cent
on trading and 3 per cent on investments.

. 1980 ?

A. 7.3 per cent on
trading and 3.5 per cent on income from investments.

. 1981 ?

A. 3.9 per cent on
trading and 4.4 per cent on investments.

. 1982 ?

A. 4.4 per cent on
trading and 3.9 per cent on investments.

. [illegible]

A. [illegible] on trading and there was a return of 3.9 on invest-
ments.

. There is a slight loss in 1983 of .1 per
cent ? A. Yes.

. 1984 ?

A. 10.9 per cent on trading
and 3.2 per cent on investments.

. 1985 ?

A. 7 per cent on trading
and 3.2 per cent on investments.

. 1986 ?

A. [illegible]

cent on trading and 3.4 per cent on investments.

BY MR.McRUER: Q. Well now, you might just have an exhibit made up of that little table that we have read into the record and we will have it filed. Could your lordship give it a number ?

THE COMMISSIONER: This is the second vacant number in succession. It will be 948. 947 is not yet supplied.

MR.McRUER: Well now, 948 will be a statement of percentages of net revenue --

THE COMMISSIONER: Well, we will name it when we get it and put it in.

MR.McRUER: Oh well, I am afraid we have got our percentages wrong, that the percentages we have put in of the revenue from trading have been based on the total common stock equity instead of the total common stock equity less the common stock equity employed outside the corporation.

THE COMMISSIONER: I see; you have been making it work twice.

MR.McRUER: So that the percentages of revenue from trading on the common stock equity employed in operations will have to be worked out.

THE COMMISSIONER: Well, we will just strike all this out and start over again when you are ready.

MR. GEOFFRION: Is this to be eliminated then ?

MR.McRUER: Well, it is there, but --

THE COMMISSIONER: It is not what it was represented to be.

MR. McRUER: Not what it was represented to be.

cent on trading and 5.4 per cent on investments.

BY MR.MONROE: Q. Well now, you might just have an exhibit made up of that little table that we have read into the record and we will have it filed.

Could your Lordship give it a number ?

THE COMMISSIONER: This is the second vacant number in succession. It will be 946. 945 is not yet supplied.

MR.MONROE: Well now, 946 will be a statement of percentages of net revenue --

THE COMMISSIONER: Well, we will name it when we get it and put it in.

MR.MONROE: Oh well, I am afraid we have not our percentages wrong, that the percentages we have put in of the revenue from trading have been based on the total common stock equity instead of the total common stock equity less the common stock equity employed outside the corporation.

THE COMMISSIONER: I see; you have been making it work twice.

MR.MONROE: So that the percentages of revenue from trading on the common stock equity employed in operations will have to be worked out.

THE COMMISSIONER: Well, we will just strike all this out and start over again when you are ready.

MR. GORMAN: Is this to be eliminated then ?

MR.MONROE: Well, it is there, but --

THE COMMISSIONER: It is not what it was repre-

I think the reserve is bigger than appears.

MR. GEOFFRION: Well, speaking from the point of view of cross examination --

MR.McRUER: You do not need to worry about it at the moment. I am always glad to relieve you of work.

THE COMMISSIONER: When you bring in this exhibit that will be the proper basis.

BY MR.McRUER: Q. Now, I asked you to prepare a statement for the ten-year period dealt with that would show the total amount of bond interest paid, the total amount of dividends on preferred stock, the total amount of dividends on common stock, and the total mill wages, first dealing with it in the first five years from 1927 to 1931 and the next five years from 1932 to 1936, and the total --

THE COMMISSIONER: Just a minute; is that exhibit 947 that was to be furnished or is it something else ? It was something Mr.Gordon was putting in.

MR.McRUER: No, this is not 947.

THE COMMISSIONER: Then, this will be 949. Now, just describe it to me again.

MR McRUER: It is a statement of bond interest paid, dividends on preferred stock, dividends on common stock and mill wages.

THE COMMISSIONER: From 1927 to 1936 inclusive.

MR.McRUER: Yes, my lord.

EXHIBIT No. 949: Statement of bond interest paid, dividends on preferred stock, dividends on common stock, and mill wages from 1927 to 1936 inclusive.

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CANADA

ROBT. BRYDIE
CANADA

I think the reporter is bigger than either.

MR. GERRARD: Well, speaking from the point of view of cross examination --

MR.MONROE: You do not need to worry about it at the moment. I am always glad to relieve you of work.

THE COMMISSIONER: When you bring in this exhibit that will be the proper basis.

BY MR.MONROE: Q. Now, I asked you to prepare a statement for the ten-year period dealt with that would show the total amount of bond interest paid, the total amount of dividends on preferred stock, the total amount of dividends on common stock, and the total [illegible] years from 1927 to 1936 and the [illegible] 1932 to 1936, and the total --

THE COMMISSIONER: Just a minute; is that exhibit that was to be furnished or is it something else

It was something Mr.Gordon was putting in.

MR.GORDON: No, this is not 347.

THE COMMISSIONER: Then, this will be 348.

Now, just describe it to me again.

MR MONROE: It is a statement of bond interest paid, dividends on preferred stock, dividends on [illegible]

THE COMMISSIONER: From 1927 to 1936 inclusive.

Yes, Mr Lash.

MR. GEOFFRION: It is divided into two sections. It is not in exhibit form yet ?

MR.McRUER: Yes, I will file it. We will have copies made of it. The total bond interest and dividends paid for the five year period from 1927 to 1931 amount to how much ? A. $8,343,833.75.

THE COMMISSIONER: You have not divided the two, bond interest and dividends ?

MR.McRUER: Yes, my lord, I was giving the total.

BY THE COMMISSIONER: Q. How much is the total ? A. $8,343,833.75.

Q. All right, that is the total.

BY MR.McRUER: Q. The total wages paid over that period amounted to how much ? A. $26,250,050.34.

MR. BALLANTYNE: 250,050?

THE WITNESS: Yes, and 34 cents.

MR McRUER: Then, we will take the next period from 1932 to 1936 inclusive.

THE COMMISSIONER: That is just the first five years ?

MR.McRUER: That is the first five years.

MR. BALLANTYNE: Might I ask just what wages went into that wages figure ?

THE WITNESS: Mill wages, supervision and clerical.

MR. BALLANTYNE: And mechanical staff ?

THE WITNESS: Yes.

MR.McRUER: That is what is shown on the answers to the questionnaire as being wages.

MR. BALLANTYNE: That takes in mill workers, mechanical staff, mill supervision and clerical, and

It is not in exhibit form yet ?

MR. MONROE: Yes, I will file it. We will have

copies made of it. The total bond interest and div

bonds paid for the five year period from 1927 to 193

amount to her credit.

THE CHAIRMAN: You have not divided the two

bond interest and dividends ?

MR.MONROE: Yes, my Lord, I was giving the to

Q. How much is the total

A. $8,345,885.75.

Q. All right, they are the bonds.

BY MR.MONROE: Q. The total wages paid over the

period amounted to how much ? A. $80,280,050.

MR. BULLAMKIM: 280,0805?

THE WITNESS: Yes, and 84 cents.

MR MONROE: Then, we will take the next period

from 1932 to 1936 inclusive.

THE COMMISSIONER: That is just the first five

years ?

MR.MONROE: That is the first five years.

MR. BULLAMKIM: Might I ask just what wages w

into that wages figure ?

THE WITNESS: Mill wages, superannuation and sick

MR. BULLAMKIM: ...d mechanical staff ?

THE WITNESS: Yes.

MR.MONROE: That is what is shown on the renew

to the questionnaire as being wages.

MR. BULLAMKIM: That wages in mill workers.

stops there? That doesn't include head office ?

MR.McRUER: We do not include head office .

MR. BALLANTYNE: Does not include head office salaries.

MR.McRUER: Or the president.

THE COMMISSIONER: Or counsel.

MR.McRUER: The next year will probably include that too. 1932 to 1936 inclusive the total bond interest and dividends amount to how much ? A. $8,445,176.25.

Q. And the total wages ? A. $23,588,914.87.

Q. Now, take in these years of the acute depression, the dividends and bond interest rose by --

THE COMMISSIONER: $98,000.

BY MR.McRUER: Q. By $98,000., and the wages decreased -- no, the dividends and bond interest rose by $101,000. my lord, and the wages decreased by how much ? A. $2,670,000.

Q. $2,670,000.; now, I want to just analyze that a little bit further and see if we can see where the increases took place. For the first period, the first five years the bond interest amounted to how much ? A. $1,533,970.

Q. And for the last five year period ? A. $1,353,466.25.

Q. So that the bond interest decreased in the last period ? A. About $180,000.

Q. By about $180,000. ? A. The preferred stock dividend remained the same, that is, $679,210. for each period.

POST BRYDIE
CANADA

Q. But the common stock dividends for the first period of five years amounted to how much ?
A. $6,130,653.75.

Q. In the last period how much ? A. $6,412,500.

Q. So that the common stock dividends were increased in the depression years by how much ?
A. $282,000.

MR. GEOFFRION: There was $3,375,000. taken in ?

MR.McRUER: That does not alter the fact you paid less wages after the tariff and got more dividends on the common stock. That is my point. You can argue any way you like.

MR. GEOFFRION: We have more capital taken in.

THE COMMISSIONER: Taken in when ?

MR. GEOFFRION: $3,375,000. was taken in in 1929.

THE COMMISSIONER: That would count in the first period -- oh yes, in both periods.

MR. GEOFFRION: We had $3,375,000. more.

MR. McRUER: That went to the purchase of more plant. What I am getting at purely is whether the return was productive to more return on common stock or productive to wages.

MR. GEOFFRION: It was more money to pay dividends on, bigger common stock.

MR.McRUER: I don't care about that, but I will go back and analyze it and see whether you paid more on the original investment of $500,000. over the last five years. You have brought up the point as to more capital taken in. Now, I am going to see whether on the original investment of $500,000. it was increased in

Q. But the common stock dividends for the first

period of five years amounted to how much ?

A. $3,130,856.75.

Q. In the last period how much ? A. $6,412,30

Q. So that the common stock dividends were in-

creased in the depression years by how much ?

A. $282,000.

MR. CHAIRMAN: There was $3,275,000. taken in

MR.MORROW: That does not alter the fact you pa

I see wages after the tariff and got more dividends o

the common stock. That is my point. You can argue

any you like.

THE CHAIRMAN: Taken in when ?

MR. GARRETSON: $3,275,000. was taken in in 1

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period -- oh yes, in both periods.

MR. GARRETSON: We had $3,275,000. more.

MR. MORROW: What went to the purchase of more

plant. What I am getting at merely is whether the

tion was productive to more return on common stock

productive to wages.

MR. GARRETSON: It was more money to pay divi-

dends on, however common stock.

MR.MORROW: I don't care about that, but I will

go back and analyze it and see whether you paid mo

up the original investment of $300,000. over the I

tive years. You have brought up the point as to m

capital taken in. Now, I am going to see whether o

the last five years.

THE COMMISSIONER: There was $3,375,000. taken in that year.

MR. McRUER: Of that $3,375,000. taken in a portion of that capital went into the Sherbrooke Cotton Company, did it not, which had previously been shown as a subsidiary company? A. No, it went for the purchase of the Sherbrooke Cotton Company which became a subsidiary company.

Q. Oh yes ? A. According to the questionnaire here the note on the questionnaire opposite the issue of the $3,375,000. is "These shares issued to finance the acquisition of the Jenckes Canadian Company and the Canadian Connecticut Company", which was the Sherbrooke Cotton Company.

Q. Well, we will eliminate the new capital that was brought in and deal with the original investment of $500,000. over the same period of years as is dealt with in this Exhibit. We will have it right here because it was suggested my question was unfair in regard to the other capital being brought in. In the years 1926 to 1931, or 1927 to 1931 what would be the total amount paid in common stock dividends on the shares that were issued for the original investment of $500,000.?
A. $3,750,000.

Q. From 1932 to 1936 what would be the total amount paid as dividends on the common stock that was issued in return for the original $500,000. ? A. $3,562,500.

Q. Well, we have got the story. Now, I think that is everything I want to ask Mr. Howson in regard to

the last five years.

THE CHAIRMAN: There was $3,375,000. extra in that year.

MR. MORDEN: Of that $3,375,000. taken in a year of that capital went into the Sherbrooke Cotton Company did it not, which had previously been shown as a subsidiary company? A. No, it went for the purchase of the Sherbrooke Cotton Company which became a subsidiary company.

Q. Oh yes? A. According to the questionnaire here the note on the question re the issue of the $3,375,000. is "These shares issued to finance the acquisition of the Jacques Cartier Company and the Canadian Connecticut Corporation", which was the Sherbrooke Cotton Company.

Q. Well, we will eliminate the new capital that was brought in and deal with the original investment $3000,000. over the same period of years as is dealt in this Exhibit. We will have it right here because was suggested my question was unfair in regard to other capital being brought in. In the years 1929 to 1931, or 1932 to 1931 what would be the total amount paid in common stock dividends on the shares that were issued for the original investment of $3000,000.?

A. $3,795,000.

Q. From 1932 to 1936 what would be the total amount paid as dividends on the common stock that was issued

Q. Well, we have got the story. Now, I think

the Dominion Textile statement at the moment.

MR. GEOFFRION: I might have to defer part of my cross examination on these incomplete exhibits I have not yet seen.

MR. McRUER: Which one ?

MR. GEOFFRION: The one you just put in this morning, I have not seen yet. Anyway, I think I have got enough to go to the adjournment. There is no danger about that.

THE COMMISSIONER: There are two exhibits not in at all.

MR. GEOFFRION: I may be able to cross examine on them because I think I have the substance of them but I won't be able to guarantee it.

THE COMMISSIONER: If you wish to defer part of your cross examination it is quite all right.

MR. GEOFFRION: All right; if necessary I will apply for that later.

CROSS EXAMINED BY MR. GEOFFRION:

Q. Would you please take your statement, your general statement number 317, I think it is called -- 917, I am sorry, and look at what I call page 5, or page 11 according to the way it is numbered.

MR. McRUER: Better refer to it as 11.

THE WITNESS: Is that the one headed "Memo re Profits" ?

BY MR. GEOFFRION: Q. Yes ? A. 1927 to 1936.

Q. You have used that statement among other purposes to suggest that in the year 1934 wages were reduced.

MR. CHORTKOFF: All right; if necessary I will
Your cross examination is in writing.

Do you know that the cut in wages took place in April, 1934 ?

MR.McRUER: April, 1933, according to the evidence.

MR. GEOFFRION: For the 1934 year, you are right.

MR.McRUER: For the year ending March 31st, 1934.

MR. GEOFFRION: I am sorry, I am corrected. 1934 begins in April, 1933. The wages were cut in April, 1933 ? A. The only thing I know about it is from the evidence.

Q. Well, pretty nearly everything you have said you know from the evidence and the books. A. Yes.

Q. Well, that is the beginning of the fiscal year of the company ? A. April 1st, yes.

Q. So that when they made the cut at least they did not know what would be the results of 1933 - 34 ? A. No, they would not have the results.

Q. If, on the otherhand you look at 1932-33 you will find they had a deficit of $1,796,143.; that is right ? A. That is -- I would not say that was a deficit on the operations.

MR.McRUER: That is after paying --

MR. GEOFFRION: A deficit I say ? A. What do you mean by that ?

Q. $1,796,000.? A. After paying dividends, after transferring a million dollars to reserve on investments.

Q. Now, as against the million dollars they transferred to investments they had received interest on investments of $550,000? A. Yes.

1934 ?

MR.MCMURRAY: April, 1933, according to the evi-
dence.

MR. CHAIRMAN: For the 1934 year, you are righ

MR.MCMURRAY: The 1934 year ending March 31st, 1934

MR. CHAIRMAN: I am sorry, I am corrected. 1933

begins in April, 1933. The wages were out in April,

1933 ? A. The only thing I know about it is from

the evidence.

Q. Well, pretty nearly everything you have said

you know from the evidence and the books. A. Yes.

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MR.MCMURRAY: That is after paying --

MR. CHAIRMAN: A deficit I say ? A. They do

you mean by that ?

Q. $1,798,000.? A. After paying divi-

dends, after transferring a million dollars to re-

serve or depreciation.

Q. Now, as against the million dollars they

[illegible] to investments they had received later at

Q. And so therefore there was only $450,000. was charged there --

THE COMMISSIONER: What ?

MR. GEOFFRION: Only $450,000.; they transferred a million dollars to the fund. They charged $1,000,000. to loss on investments and they received $550,000. profit on investments.

Page 12795 follows.

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Q. And so therefore there was only $450,000.

was charged there --

THE COMMISSIONER: What ?

MR. [illegible]: Only $450,000; they [illegible]

million dollars to the Fund. They charged

$1,000,000. to loss on investments and they received

$550,000. profit on investments.

Page 12965 follows.

A. There was income and profit on investments during that year of $550,000.

Q. That represents a difference of $450,000.

MR. McRUER: I do not see that.

MR. GEOFFRION: I did not interrupt my learned friend, and I would ask him to allow me to cross-examine the witness. The witness can defend himself.

BY MR. GEOFFRION: Q. I suggest that the investment item here shows an interest on profit of $550,000 in round figures. A. That is right.

Q. And that on the other hand there is a debit on losses on investments of $1,000,000? A. Yes.

Q. And a common stock dividend was paid of $1,282,000? A. Yes.

Q. So it was not a year as good as 1934. That is what I am after. A. 1933 was not as good as 1934, not by aby means.

Q. The next year they not only reduced their weges by 10 per cent but their dividends by more than 10 per cent.

MR. McRUER: On common stock.

THE WITNESS: The dividend was reduced from 5 to 4 per cent, that year, was it not?

BY MR. GEOFFRION: Q. The dividend was reduced by 20 per cent, and you know that the higher salaries were also reduced by far more than 10 per cent? Do you know that ? A. There was a reduction in salaries.

Q. That was proved anyway. Do you know also

A. There was income and profit on investments during that year of $330,000.

Q. That represents a difference of $480,000.

MR. [illegible]: I do not see that.

MR. [illegible]: I did not interrupt my learned friend, and I would ask him to allow me to cross-examine the witness. The witness can determine himself

BY MR. [illegible]: Q. I suggest that the investment items there stand an interest on profit of $360,000 in round figures. A. That is right.

Q. And yet on the other hand there is a debit on losses on investments of $1,000,000? A. Yes.

Q. And a common stock dividend was paid of $1,800,000? A. Yes.

Q. So it was not a year as good as 1928. That is what I am after. A. 1930 was not as good as 1924, not by any means.

Q. The next year they not only reduced their wages by 10 per cent but their dividends by more than 10 per cent.

A. Common stock.

[illegible]: The dividend was reduced from 5 to 4 per cent, that year, was it not?

BY MR. [illegible]: Q. The dividend was reduced by 20 per cent, and you know that the figures were also reduced by far more than 10 per cent? Do you know that? A. There was a reduction in salaries.

Q. That was proved anyway. Do you know also

that the great year of 1934, that banner year, was largely due, I understand, to a rise in the price of raw cotton? A. I know there was a rise in raw cotton, and somebody in the evidence has attributed the profits to that, but the company's statement does nt show that.

Q. But as a matter of fact there was a rise in raw cotton? A. In the raw cotton price, yes.

Q. That would make a profit to the company? A. It would be a profit if they raised their price accordingly.

Q. Not only that but the material in hand would increase in value also. A. I do not know whether it would if they took it at cost or market, whichever was lower.

Q. But you had testimony yesterday that it was taken at market. A. Yes, but the stuff they had on hand at the close of business might have been merchandise purchased at the closing price.

Q. When the rise took place, if they had raw cotton on hand -- A. That cost them less, and they took it in at market price, they would show a profit.

Q. Exactly, and we had evidence that they did take it in at market price, when there was a rise, and the inference is that there was a profit due to the rise in the price of raw cotton. I am instructed that that is so -- A. I cannot tell you that.

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Q. Exactly, and we had evidence that they did take it in at market price, when there was a rise, and the inference is that there was a profit due to the rise in the price of raw cotton. I am instructed that that is so -- A. I cannot tell you that.

This statement does not make any distinction between results of operations and results of inventory.

Q. I do not ask you to admit it because you do not know apparently, but at all events if there was a rise in the price of raw cotton, that would not be a profit due to manufacturing and merchandising. It would be an accidental profit due to fluctuations in the world price of a commodity. A. Of course, the company is subject to these fluctuations.

Q. Would you suggest that when cotton falls and the company takes a loss, that it should reduce its wages? A. I do not know that I am in a position to discuss the policy of any company in that regard.

MR. McRUER: They have reserves against that.

MR. GEOFFRION: And you are criticizing the reserves. I would ask my learned friend again to let me cross-examine the witness. He can re-examine him if he wishes.

THE COMMISSIONER: Yes, I think it would save time.

MR. GEOFFRION: The Witness can take care of himself, I think.

BY MR. GEOFFRION: Q. I was stating that of course it would be absurd that a company should go and reduce its wages because accidentally, through fluctuations in the world price, cotton went down, and we are all agreed that it did. Do you hesitate to answer that? A. Let me get

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that question again.

Q. I suggest that it would be absurd that a company, each time that cotton falls and it therefore suffers a loss on that account, should go and reduce its wages, and that wages should fluctuate with the cotton market? A. I do not think that would be a very sound policy to follow.

Q. Should not the rule work both ways? Should an accidental rise in the world price of cotton be a sufficient reason for raising wages? A. On the same basis, no.

Q. All right. Now would you please look at page 9 of this Exhibit, Financial Summaries? This is the page of your statement which my learned friend used to paint a spectacular picture of the money that was made by the original investors of $500,000 in cash and common stock. Would you take the investors of 1929, who put in $3,375,000, and see how that picture compares with the other. Give us what is the percentage on their investment that these gentlemen got. You know, as a matter of fact, that for their $3,375,000 they got one-sixth of the equity of the company, 45,000 shares out of the 270,000. Figure it out. I am not a mathematician, and I may be wrong. A. One-sixth.

Q. Therefore, for $3,375,000 of good cash these gentlemen in 1929 received one-sixth of the equity of the company, and they got therefore

that question again.

Q. I suggest that it would be absurd that a company, each time that cotton falls and it therefo suffers a loss on that account, should go and redu its wages, and that wages should fluctuate with the cotton market? A. I do not think that would be a very sound policy to follow.

Q. Should not the rule work both ways? Should an accidental rise in the world price of cotton be a sufficient reason for raising wages?

A. On the same basis, no.

Q. All right. Now would you please look at page 9 of this Exhibit, Dingwell Summaries. This is the page of your statement which my learn friend used to paint a spectacular picture of the money that was made by the original investors of $300,000 in cash and common stock. Would you take the investors of 1929, who put in $1,875,000, and are now that picture compared with the other. Give us what is the percentage on their investment that these gentlemen got. You know, as a matter of fact, that the $1,875,000 had put them- mixed of the equity of the company. 45,000 shares out of the 270,000. Figure it out. I am not s mathematician, and I may be wrong. A. One- sixth.

Q. Therefore, for $1,875,000 or $1,875 these gentlemen in 1929 received one-sixth of the equity of the company, and they put therefore

one-sixth of the dividend of $1,350,000.

THE COMMISSIONER: How much?

MR. McRUER: $3,375,000, was it not?

THE WITNESS: $3,275,000.

BY MR. GEOFFRION: Q. You say they got one-sixth of the dividend of $1,350,000? A. They would have one-sixth of the total dividend issued.

THE COMMISSIONER: The total dividend was $1,375,000. It is marked right here.

THE WITNESS: That is not the total dividend of 1929.

MR. GEOFFRION: I am wrong. It is $1,180,000. Suppose we take 1930, to simplify it.

THE WITNESS: Take 1931, which is $1,350,000.

MR. GEOFFRION: Take the highest dividend paid since they put in their money. What rate on their $3,375,000 would they get compared with the 150 per cent on the $500,000?

THE COMMISSIONER: $125,000.

BY MR. GEOFFRION: Q. I want to know what is the percentage of dividend they got on their actual investment or the year before?

MR. McRUER: They paid $75 a share, and they got $5 a share.

THE WITNESS: 6.66 per cent.

BY MR. GEOFFRION: Q. 6-2/3 per cent, yes. Then in the year 1934 they got a little over 5 per cent, did they not?

THE COMMISSIONER: $217,000.

THE WITNESS: They got about 5-1/3 per cent.

one-sixth of the dividend of $1,350,000.

THE COMMISSIONER: How much?

MR. McBURNEY: $6,375,000, was it not?

The witness: $2,875,000.

BY MR. GEOFFRION: Q. You say they got one-sixth of the dividend of $1,350,000? A. They would have one-sixth of the total dividend issued.

THE COMMISSIONER: The total dividend was $1,375,000. It is marked right here.

THE WITNESS: That is not the total dividend of 1929.

MR. GEOFFRION: I am wrong. It is $1,180,000. Suppose we take 1930, to simplify it.

THE WITNESS: Take 1931, which is $1,350,000.

MR. GEOFFRION: Take the highest dividend paid since they put in their money. What rate on their $6,375,000 would they get compared with the 150 per cent on the $900,000?

THE COMMISSIONER: $135,000.

BY MR. GEOFFRION: Q. I want to know what is the percentage of dividend they got on their actual investment of the ... ost before?

A. McBURNEY: They paid $75 a share, and they got $5 a share.

THE WITNESS: 6.66 per cent.

BY MR. [illegible]: Q. 6-2/3 per cent, yes.

[illegible] per cent, did they not?

THE COMMISSIONER: $[illegible].

BY MR. GEOFFRION: Q. 5-1/3 per cent. We have discussed there the highest and the lowest dividend they have received since that date.

A. Yes, in that period, since they subscribed.

Q. So the dividends they received on their investment varied from 6-2/3 to 5-1/3 per cent?

A. Yes.

Q. Of course it is rather a contrast with the other dividends paid to the original promoters?

A. Yes.

Q. But is that a very, very unusual thing, for promoters of an enterprise, of a new venture, putting in their money thirty years ago, to get a much better return than those who come in at the last moment when the enterprise has turned out a success? A. No.

Q. I might take also the other investment of $2,500,000 in 1923, at the time of the incorporation of a new company. A. Just prior to that.

Q. Just prior to that. There again these gentlemen were getting one-third of the equity at that time as against the original promoters' two-thirds. Is that right? A. Yes.

Q. I am trying to simplify it that way. Can you tell us what is the return they received, say in 1934? We will leave out 1923. My experts calculate it at 12 per cent. A. Oh, you want the percentage. I was trying to figure out the percentage of their equity in the company.

have discussed there the highest and the lowest dividend they have received since that date.

A. Yes, in that period, since they subscribed.

Investment varied from 6-3/8 to 5-1/2 per cent?

A. Yes.

Q. Of course it is rather a contrast with the other dividends paid to the original promoters?

A. Yes.

Q. But is that a very unusual thing, for promoters of an enterprise, of a new venture, putting in their money fifty years ago, to get a much better return than those who come in at the last moment when the enterprise has turned out a success?

A. No.

Q. I might take up the other investment of $2,500,000 in 1928, at the time of the incorporation of a new company.

A. Next prior to that.

Q. Next prior to that. There again there apparently were existing one-third of the equity of that time as against the original promoters' two-thirds. Is that right?

A. Yes.

Q. I am trying to simplify it that way. Then you tell me what is the return they received.

A. Oh, in 1928? We will have out 1928. My recollection is it is 12 per cent.

You want the percentage. I was trying to figure out the percentage of that equity in the company.

Q. Obviously we know they put in $2,500,000.
A. They got three shares for each one.

Q. I am sorry, you may be right. We can check that up. A. They got 75,000 shares out of a total of 270,000.

BY THE COMMISSIONER: Q. There was an issue of shares of a par value of $100, was it not?
A. Yes, they subscribed for 25,000 shares of a par value of $100, and then on the reorganization they got three shares for each one.

BY MR. GEOFFRION: Q. I apologize. I thought it was one-third; I may be wrong. Will you check it?
A. You were referring to one-third interest?

Q. Yes. A. It was one-third interest before reorganization.

Q. It must have remained one-third after.
A. No, it was one-third then, but it becomes less than one-third when the other comes in.

Q. I am not speaking of 1929; I am speaking of 1923. A. I see. That is right.

Q. It becomes one-third of five-sixths later on, but it was then one-third. I will put it this way. Until the 1929 additional issue of stock the interest of these people was one-third at the time they came in? A. Yes.

Q. Afterwards it was one-third of five-sixths. But then I would like to know, here again let us take your lowest dividend in 1924 or 1925. That would give them how much per cent on their capital investment of $2,500,000? A. 12 per cent.

Q. 12 per cent. Now to make things a little shorter I will leave out 1929, when new money was coming in, and take another year when the highest dividend was 11.25.

MR. McRUER: What year?

MR. GEOFFRION: 1926, 1927. I see that is complicated by the new stock. I would like to leave that out.

THE WITNESS: 15 per cent.

BY MR. GEOFFRION: Q. Now afterwards, what was their percentage, say, in 1932, when they had one-third of five-sixths?

THE COMMISSIONER: Five-eighteenths.

BY MR. GEOFFRION: Q. Five-eighteenths, yes, and the dividend was $1,350,000, the highest dividend. A. It would be about 27½ per cent of the equity, would it not?

Q. It is five-eighteenths.

MR. NASH: Five-eighteenths exactly.

THE WITNESS: That is 1932.

MR. NASH: $375,000 is five-eighteenths of the dividend.

BY MR. GEOFFRION: Q. I am instructed that five-eighteenths of the dividend, which is the equity of these people, is $375,000, but we can check that up. A. That was in what year?

Q. I am taking 1932 or 1933; they are the same — no, 1932.

MR. McRUER: 1931 will do.

MR. GEOFFRION: I am wrong, 1931 or 1932.

4. 18 per cent. Now tomorrow think a little
shorter. I will leave out 1929, when new money was
coming in, and then another [illegible] the figure
divided was 11.85.

MR. GUNTHER: 1928, 1927. I see that is supplied by the new stock. I would like to leave that out.

THE WITNESS: 15 per cent.

BY MR. CHOATE: Q. Now afterwards, what was their percentage, say, in 1928, when they had one-third of five-sixths?

THE COMMISSIONER: Five-eighteenths.

MR. [illegible], etc. five-eighteenths, yes, and the divided was $1,850,000, the highest divided A. It would be about 27% per cent of the county. was it not?

Q. It is five-eighteenths.

MR. MACK: Five-eighteenths exactly.

THE WITNESS: That is 1928.

MR. MACK: $275,000 is five-eighteenths of the [illegible].

BY MR. CHOATE: Q. I am instructed that five-eighteenths of the divided, which is the equity of those people, is $275,000, but we can check that A. That was in what year?

Q. I am taking 1927 or 1928; they are the same - er, 1926.

MR. [illegible] etc.

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MR. McRUER: The rate was really the same on the original investment at that time because the other was at the rate of 150 per cent, and this would be a rate of 15 per cent, which bears the same relation.

THE WITNESS: Yes, that is right. The total amount is $375,000 applicable to those shares.

BY MR. GEOFFRION: Q. Then those gentlemen in 1923 putting in $2,500,000 in cash have been receiving in dividends first 12 per cent and later 15 per cent? A. Yes.

Q. And those who put in $3,375,000 in 1929 have been receiving dividends that varied from 6 per cent to --

THE COMMISSIONER: From 6-2/3 to 5-1/3 per cent.

THE WITNESS: Yes.

BY MR. GEOFFRION: Q. Now is there any particular reason why in determining what is the fair amount of protection that a parliament, believing in the policy of protection, rightly or wrongly, should give to an industry, that we should, as my learned friend did, choose exclusively the returns in a company, the biggest if you like, on an investment of the original promoters thirty years ago, and completely fail to compare it with the return on the investment of later investors? Is there any reason for that, choosing the one group of investors who came in thirty years ago as the basis, rather than others?

Mr. MOULTON: The rate was really the same on the original investment at that time because the other was at the rate of 150 per cent, and this would be a rate of 15 per cent, which bears the same relation.

THE WITNESS: Yes, that is right. The total amount is $275,000 applicable to those shares.

1.22 putting in $2,300,000 in cash have been receiving in dividends first 12 per cent and later 15

A. Yes.

Q. And those who put in $4,375,000 in 1929 have been receiving dividends that varied from 6 per cent to --

THE COMMISSIONER: From 6-3/8 to 5-1/3 per cent.

THE WITNESS: Yes.

BY MR. GUTHRIE: Q. Now is there any particular reason why in determining what is the fair amount of protection that a permanent, believing in the policy of protection, rightly or wrongly, should give to an industry, that we should, as my learned friend did, choose exclusively the returns in a company, the biggest if you like, on an investment of the original promoters thirty years ago, and completely fail to compare it with the return on the investment of later investors? Is there any reason for that, choosing the one group of investors who in thirty years ago as the basis, rather than

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MR. McRUER: I think I should be called upon to answer that rather than Mr. Howson.

MR. GEOFFRION: I am entitled to put the question to see whether he is willing or unwilling to answer it.

THE WITNESS: Would you please repeat the question?

BY MR. GEOFFRION: Q. Is there any particular reason why in determining what is the fair amount of protection that a parliament, believing in the policy of protection, rightly or wrongly, should give to an industry, that we should, as my learned friend did, choose exclusively the returns in a company, the biggest if you like, on an investment of the original promoters thirty years ago, and completely fail to compare it with the return on the investment of later investors? Is there any reason for that, choosing the one group of investors who came in thirty years ago as the basis, rather than others? A. I think that is a little outside my province.

Q. That is enough; that is what I went. Do I understand that in this statement the basis for it is outside of your province, and that you are simply there to make statements as you are told according to the books and information you got from the company?

MR. McRUER: The statement contains the whole story.

MR. GEOFFRION: It does not contain the whole story. Will my learned friend please allow me to put

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Mr. Boyd K: I think I should be called upon to answer that rather than Mr. Howson.

Mr. Chairman: I am entitled to put the question to see whether he is willing or unwilling to answer it.

The Witness: Would you please repeat the question?

By Mr. Chairman: Q. Is there any particular reason why in determining what is the fair amount or protection that a parliament, believing in the policy of protection, rightly or wrongly, should give to an industry, that we should, as my learned friend did, choose exclusively the return in a company, that is, if I may put it if you like, on an investment of the ordinary thirty years ago, and completely fail to compare it with the return on the investment of later investors? Is there any reason for that choosing the one group of investors who came in thirty years ago as the basis, rather than others?

I understand that in this statement the basis for it is owners of your properties, and that you are simply there to make statements as you are told according to the books and information you get from

Mr. Boyd K: The statement contains the whole story.

the question to the witness?

MR. McRUER: You are putting it most unfairly, to suggest that there was any discrimination made.

MR. GEOFFRION: In my question there was no such suggestion.

THE COMMISSIONER: Go on, Mr. Geoffrion.

BY MR. GEOFFRION: Q. What I mean is that your statement is yours as regards the figures, but the basis of it is not yours? A. I would not say that.

BY THE COMMISSIONER: Q. You are speaking as an accountant and auditor? A. To a certain extent; also, as accountant and auditor retained by this commission to produce information for the benefit of the commission in relation to the various companies that are investigated, and this group of statements includes the balance sheet and profit and loss account precisely as the returns have been given to us, subject to certain adjustments which were given to us by letter, and so on.

BY MR. GEOFFRION: Q. From the company? A. From the company, and other statements and information contained in the questionnaire, and other information received from the company, to illustrate certain angles that have been brought out in the evidence.

Q. I would suggest that you are defending yourself when not attacked. A. I am not defending myself at all, I am trying to explain what statements are here.

the question to the witness?

MR. MCFUL: You are putting it most unfairly, to suggest that there was any disarmination made.

MR. CHAIRMAN: In my question there was no such suggestion.

THE COMMISSIONER: Go on, Mr. Scott.

BY MR. CHAIRMAN: Q. What I mean is that your statement is yours as regards the figures, but the basis of it is not yours? A. I would not say that.

BY THE COMMISSIONER: Q. You are speaking as an accountant and auditor? A. To a certain extent; also, as accountant and auditor retained by this commission to produce information for the benefit of the commission in relation to the various companies that are investigated, and this group of statements includes the balance sheet and profit and loss account precisely as the returns have been given to us, subject to certain adjustments which were given to us by letter, and so on.

BY MR. CHAIRMAN: Q. From the company? A. From the company, and other statements and information contained in the questionnaire, and other information received from the company, to illustrate certain matters that were brought out in the evidence.

Q. I would suggest that you are defending your statement not attacked. A. I am not defending myself at all. I am trying to explain the

Q. You are explaining what does not require explanation because I have admitted that your figures are accurate, and I was questioning you on the basis. A. And I am explaining to you the basis of these statements.

Q. All right, and one of the bases at least of the statement was the answer given by you, and by Mr. McRuer, that you are not prepared to say which of the three groups of investors should be taken as the basis. A. Mr. McRuer asked me certain questions which I answered.

Q. You do not care to pass on that? I will go to something else. In your statements, instead of concentrating on the cash originally put in, of $500,000, generally speaking you proceed whenever you refer to cash put in by giving the total cash put in, adding the $500,000, the $2,500,000 and the $3,375,000 ? A. In some statements, yes.

Q. Well, of course, from the point of view of company law that is not the function because the share interest of each contributor is not proportionate to the amount put in. We see that the 1923 gentlemen had five-eighteenths, and ten-eighteenths applies to the promoters. Then of course the revenues of the company are divided, as we all know according to company law, according to the interest, and not according to the amount put in. A. According to the shares issued.

Q. Now Mr. Howson I would like to have a little

explanation of a very slight discrepancy which probably is explainable -- in fact I think I have it. Take 1936 as an illustration. You give, on the same page, the common shareholders equity as $11,768,000.

MR. McRUER: Is that on page 9?

MR. GEOFFRION: The same page, yes, page 9, or page 11.

MR. McRUER: I have it, yes.

BY MR. GEOFFRION: Q. Then I turn to page 12 where the common stockholders equity appears as $13,629,000 for 1936. A. That is after bond discount which they carry as an asset on their books.

Q. The difference between those two figures is the bond discount, do you say? A. Yes.

THE COMMISSIONER: Where is the figure on page 12

(The Witness indicates)

THE COMMISSIONER: That figure, though, does not make up this difference between $11,768,000 and $13,629,000.

Q. You say that the difference is made up of $218,250 bond discount, but I think the error is here that the real comparison should be between the figure at the foot of the page, page 9, $13,947,000 instead of $11,768,000. A. Yes.

Q. Mr. Geoffrion stopped on page 9 at the $11,768,000 figure, without adding in the $2,179,000 right below it, representing inventory, investment and contingent reserves. That makes the total equity of the common shareholders $13,947,000. Then you compare that with the figure on page 12,

explanation of a very slight discrepancy which
probably is explainable -- in fact I think I have it
from 1956 as an illustration. You give, on the same
page, the common shareholders' equity as $11,768,00
MR. MCNUTT: Is that on page 9?
MR. CHAIRMAN: The same page, yes, page 9, or
page 11.
MR. MCNUTT: I have it, yes.
BY MR. CHAIRMAN: Q. Then I turn to page 12
where the common stockholders' equity appears as
$12,680,000 for 1956. A. That is after bond
discount which they carry as an asset on their book
Q. The difference between those two figures is
the bond discount, do you say? A. Yes.
THE COMMISSIONER: Where is the figure on page
(The witness indicates)
THE CHAIRMAN: That figure, though, does not
make up this difference between $11,768,000 and
$12,680,000.
A. You say that the difference is made up of
$912,850 bond discount, but I think the error is
that the real comparison should be between the
figure at the top of the page, page 9, $11,767,00
[illegible].
Q. Mr. Coffrin stopped on page 9 at the
$11,768,000 figure, which is the $11,767,
Note 11, representing [illegible]. Then I go to
total assets received. That is a two total

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$13,629,000. The difference there, the witness points out, is made up of $318,000.

MR. GEOFFRION: That is not enough.

THE COMMISSIONER: The difference between $13,947,000 and $13,629,000.

MR. GEOFFRION: It is the difference between $11,000,000 and the $13,000,000.

THE COMMISSIONER: No, you should not stop at the $11,000,000 figure. Otherwise the comparison is not on the same basis. You see that below the $11,768,000 there is an item of $2,179,000, right at the foot of the page, making the total $13,947,000.

MR. GEOFFRION: I understand. The difference between the two figures is free and contingent reserves, not bond discount. I think we were both mistaken.

MR. McRUER: I do not think Mr. Howson had the figure.

BY MR. GEOFFRION: Q. The difference between the two pages disappears if you take into account contingent reserves? A. No.

Q. Well, apart from bond discount. If I take the $13,947,000 -- bond discount is out of the question because it is ignored in both places -- at all events I understand that. The cash investment you say, is $6,375,000. A. You are dealing now with which statement?

Q. Page 7 shows the cash investment. That includes the $500,000, the $2,500,000 and the

$18,689,000. The difference there, the witness points out, is made up of $818,000.

MR. GRANT: That is not enough.

THE COMMISSIONER: The difference between $18,947,000 and $19,765,000.

MR. CHANT: It is the difference between $11,000,000 and the $18,000,000.

THE COMMISSIONER: Mr. Chant is correct in the $11,000,000 figure. Otherwise the amounts is not on the same basis. You see that below the $11,765,000 there is an item of $5,175,000, right at the foot of the page, making the total $16,947,000.

MR. CHANT: I understand. The difference between the two figures is free and clear deposit reserve, not bond discount. I think we were both correct.

MR. GRANT: I do not think Mr. Morson had the figure.

THE COMMISSIONER: Q. The difference between the two proper figures if you take into account the bond discount --

A. Well, I would take both figures. If I took the $16,947,000 -- that discount is out of the question because it is figured in both times -- at all events I understand that. The other interest now, is $2,847,000.

Q. You are familiar

$3,375,000.

Q. In these calculations, therefore, you do not go on the basis of the cash invested alone? A. What is that?

Q. You do not go on the basis of the cash invested alone. A. I do not go on the basis of what?

Q. Your calculations are not based on the cash investment alone, which is the basis for your deductions on these statements on pages 9 and 12? A. No.

Q. That is obvious. You do not either go on the actual value. A. On the which?

Q. On the actual value, the present value of the commodity you are dealing with? A. Let me understand which statement you are talking about.

Q. Page 9 and page 12. A. In one statement I base it on the actual cash.

Q. I am dealing with page 9 and page 12. A. Page 9 is just a recapitulation of what has been paid.

Q. Let us take pages 12 and 13. Your deductions on pages 12 and 13, which come down to the material question of percentages, they are not the basis for your calculation of the assets of the investment, is not the cash paid for it. A. Yes, I have to take the $12,000,000.

Q. Yes, but you still remain with much more than your $6,000,000. A. But it is based on the cash investment plus the accumulated profits.

Q. In these calculations, therefore, you do not go on the basis of the cash invested alone?

A. What is that?

Q. You do not go on the basis of the cash invested alone. A. I do not go on the basis of what?

Q. Your calculations are not based on the cash investment alone, which is the basis for your calculations on these statements on pages 9 and 12?

A. Why,

Q. That is obvious. You do not either go on the actual value. A. On the what?

Q. On the actual value, the present value of the commodity you are dealing with? A. Let me understand which statement you are talking about.

Q. Page 9 and page 12. A. In one statement I base it on the actual cash.

Q. I am dealing with page 9 and page 12.

A. Page 9 is just a recapitulation of what has been said.

Q. Let us take pages 12 and 13. Your deductions on pages 12 and 13, which come down to the totaled deduction of percentages, they are not the basis for your calculation of the amount of the investment, i.e. the cash paid for it. A. Yes, I have

Q. Plus accumulated profits? A. Yes.

Q. Exactly. There you take cash invested plus accumulated profits? A. Yes.

Q. You do not take, you do not pretend to take, as a basis the depreciated value for the year under consideration? A. I have taken the depreciated value of the plant.

Q. Are you taking the present depreciated value for your calculation in so far as 1926 is concerned? A. I am taking the depreciated value as shown by the books of the company.

Q. As shown by the books of the company, but not according to your own view? A. No, I am taking it in the statement according to the books of the company.

Q. You are knocking off $12,000,000 from that. A. I am knocking off $12,000,000 from the total.

Q. In other words, you are taking the present depreciated value of the plant as shown by the books of the company minus $12,000,000? A. Yes.

Q. On page 7 you state, don't you, that this is underestimated by $17,265,000? A. Yes.

Q. So if you take your view of the present depreciated value you should add this $17,000,000, and of course deduct the $12,000,000, or add $5,000,000. Is not that right? A. Not for the purposes of this statement.

Q. For the purpose of getting at the present depreciated value, I would say. I do not care about

Q. Thus accumulated profits? A. Yes.

accumulated profits? A. Yes.

Q. You do not take, you do not pretend to take, as a basis the depreciated value for the year under consideration? A. I have taken the depreciated value of the plant.

Q. Are you taking the present depreciated value for your calculation in so far as that is concerned?

A. I am taking the depreciated value as shown by the books of the company.

Q. As shown by the books of the company, but not according to your own view? A. No, I am taking it in the statement according to the books of the company.

Q. You are knocking off $18,000,000 from that.

A. I am knocking off $18,000,000 from the total.

Q. In other words, you are taking the present depreciated value of the plant as shown by the books of the company minus $18,000,000? A. Yes.

Q. On page 7 you state, don't you, that this is understated by $17,265,000? A. Yes.

depreciated value you should add this $17,000,000, and of course deduct the $18,000,000, or add $2,000,000?

In red ink right? A. Not for the purposes this statement.

Q. For the purposes of getting at the proper depreciated value, I would say. I do not care what

the purposes of the statement, I want the facts. A. No, I should not do that in these statements.

Q. Please remove the statements from your consideration. A. Your question relates to these statements.

Q. My question does not say a word about statements. A. You are talking about statements, and I want to understand the question. Please repeat it.

Q. So if you take your view of the present depreciated value you should add this $17,000,000, and of course deduct the $12,000,000, or add $5,000,000, is not that right? A. To get at the value of the plant today, yes.

Q. To get at the value of the plant today, you add $5,000,000 to what the company values it at? A. There might be more than that to bring it up to the figures I have dealt with here. There was the $17,000,000 -- yes it would be $5,000,000.

BY THE COMMISSIONER: Q. According to you, the plant is worth $5,000,000 more than the company values it at? A. Yes, in their books, because the $12,000,000 has gone over into the books.

BY MR. McRUER: Q. It is worth $17,000,000 more than the depreciated value, but worth $5,000,000 more than it is valued at in their books? A. Yes.

THE COMMISSIONER: That is the point.

THE WITNESS: On this basis I am not saying what the plant is valued at.

BY MR. GEOFFRION: Q. Your basis is the present depreciated value. It appears on the books at

$25,000,000, and according to your view it should appear as some $31,000,000? A. Yes, approximately $5,000,000 more.

Q. I am not going to go into the details. That means, of course, that the $12,000,000 which you call inflation, was not sufficient inflation. There should have been $17,000,000 from the point of view of the value of the property? A. Today, yes.

Q. I am interested in your telling me what you were trying to tell me before. While the present depreciated value is some $31,000,000, according to you, and is some $25,000,000 according to the books, you say that should not be taken into account for the purpose of this statement. Why? A. Because that inflation was based on the profits earned by this company and charged to profit and loss account for depreciation and repairs.

Q. Let us take your first reason. Because this increase in value, which you admit is a real increase in value -- A. I admit there is a value there.

Q. That is the same thing. A. No, I do not think it is the same thing at all.

Q. One of your reasons is that this was built up out of the profits of the company? A. Yes.

Q. Now if you think the profits of the company should not be considered in this manner, why do you bring up the equity above the cash put in and include the profits of the company? A. Well, this is for a definite period. This statement is based on the investment and the capital invested, and I am

$15,000,000, and according to your view it shows
appear as some $21,000,000? A. Yes.
approximately $3,000,000 more.
Q. I am not going to go into the details. That
means, of course, that the $18,000,000 which you call
have been $15,000,000 from the point of view of the
value of the property? A. Today, yes.
Q. I am interested in your telling me what you
were trying to tell me before. While the present
depreciated value is some $21,000,000, according to
you, and is some $25,000,000 according to the books,
you say that should not be taken into account for the
purpose of this statement. Why? A. Because
that inflation was based on the profits earned by
this company and charged to profit and loss account
for depreciation and repairs.
Q. Let us take your first reason. Because this
increase in value, which you admit is a real increase
in value -- A. I admit there is a value there.
Q. That is the same thing. A. No, I do
not think it is the same thing at all.
Q. One of your reasons is that this was built up
out of the profits of the company? A. Yes.
Q. Now if you think the property of the company
[illegible] the equity above the cash put in and [illegible]
the profits of the company? A. Well, this is
[illegible] method. This statement is based on

showing the return on the capital invested in the company from year to year during that period.

Q. I beg pardon. When I go to page 12 you have the same figures, and when you tell us what is invested in the company you include some profits. Why do some profits deserve to be considered in determining what is a fair return on the investment, and other profits do not? A. Because those profits have been taken out of the operations of the company already.

Q. How is that? A. They have been charged against operations in prior years.

Q. They are in the company anyway. They have not been paid out. A. That is the point. That is what we want to show.

Q. The profits are still there, the value is there? A. Yes, of course.

Q. You told me the value today, and you said you did not take it into account because it is made up partly of cash originally put in and partly of profits since. A. Because the company has already had credit for these profits and has utilized them in writing off depreciation, repairs and so on.

Q. Surely the value is there. A. Yes.

Q. Don't we get credit for all the profits? Is it because some of our profits appear in surplus account and other profits were used in writing off, excessively according to you, is that the reason you distinguish between profits? A. No, I am telling you that the profits that are eliminated

...ving the return on the capital invested in the ...

A. I beg pardon. When I go to page 13 you have ...
the same figures, and when you tell us what is ...
vested in the company you include some profits. ...
Why do some profits deserve to be considered in ...
determining what is a fair return on the investment, ...
and other profits don't? A. Because those ...
profits have been taken out of the operations of the ...
company. ...

Q. How is that? A. They have been ...
charged against operations in prior years. ...

Q. They are in the company anyway. They have ...
not been paid out. A. That is the point ...
that is what we went to show. ...

Q. The profits are still there, the value is ...
there? A. Yes, of course. ...

Q. You told me the value today, and you said you ...
partly on cash originally put in and partly of profits ...
since. A. Because the company has utilized them ...
and asked for those profits and has utilized them ...
in writing off depreciation, reserve and so on. ...

Q. Surely the value is ...

Q. Don't we get credit for all the profits? ...
Is it because some of our purchases ...
necessarily account by you, is that the reason ...
A. No. I am ...
...t the relationship between profits? ...

from here have all been eliminated by the company, and the company got credit for them in operating accounts in prior years.

Q. Did they get credit for the others also?

A. No, no.

Q. Think of your reputation as an auditor.

A. I am trying to show in these statements information in relation to the evidence so that the commission will know the story of this company.

MR. McRUER: I think it is a very unfair thing for my friend, when he is trying to create a smoke screen, to suggest for a moment that this involves Mr. Howson's reputation as an aduitor.

MR. GEOFFRION: I am not trying to creat a smoke screen, but my friend has been trying to throw a poison gas screen .

MR. McRUER: There is no doubt that it is pretty poisonous, all right.

THE COMMISSIONER: I do not intend to wear a mask, just the same.

BY MR. GEOFFRION: Q. Let me go on with my question. Whether the profits earned by the company and not distributed are entered in the books in the depreciation account or entered in the books in the surplus account, whether you decide to use them to reduce the book value of the property or not, does that in any way affect the question, what is a fair return that the shareholders are entitled to on their investment? A. Decidedly, in this investigation.

from here have all been eliminated by the company.

and the company got credit for them in operating
[illegible] in all the years.

Q. Did they get credit for the others also?

A. No, no.

Q. Think of your resistance as an auditor.

A. I am trying to show in these statements information in relation to the evidence so that the commissioner will know the story of this company.

MR. FERGUSON: I think it is a very unfair thing for my friend, when he is trying to create a smoke screen, to suggest for a moment that this involves Mr. Howard's resistance as an auditor.

MR. DE WOLFE LOCKE: I am not trying to create a smoke screen, but my friend has been trying to throw a poison gas screen.

MR. McFUL: There is no doubt that it is pretty [illegible], all right.

THE CHAIRMAN: I do not intend to wear a [illegible] over the years.

BY MR. CHISHOLM: Q. Let me go on with my question. Whether the profit earned by the company and not distributed are entered in the books in the depreciation account or entered in the books in the surplus account, whether you decide to use them to reduce the book value of the property or not, does that in any way affect the question, what is a fair [illegible]?

A. Basically, in this investi-

Q. All right, and what is the reason for that. A. I have already given you the reason. The company has charged off these profits as a charge to operations already.

Q. In other words, the bookkeeping methods of a company, and not the real value of its plant, are going to determine what is a fair return for its shareholders. A. Not at all.

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-- The Commission adjourned for a short recess.

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Q. All right, and what is the reason for that.

A. I have already given you the reason. The company has charged off these profits as a charge to operations already.

Q. In other words, the bookkeeping methods of a company, and not the real value of its plant, are going to determine what is a fair return for its shareholders. A. Not at all.

-- The Commission adjourned for a short recess.

-- After adjournment.

Q. Let me try and work that out a little more and see if I understand it. Depreciation, as I understand it, is an entry in the books of the Company reducing the book value of the plant, of the --- A. Yes, and reducing the profit.

Q. And this amount you have is debited against profit account and therefore reduces the amount of the profit? A. Yes.

Q. If somebody comes who is of the opinion, as apparently you are, that the Company erred in its depreciation --- A. That the Company which?

Q. Erred in its depreciation - with hind sight, this gentleman thinks that the Company was over-cautious, over-conservative and depreciated too much, and if that opinion is admitted as correct, I suppose the first thing to do, and you do it here, is to write up the profit account by the amount that was improperly put to depreciation? A. If the Company adjusted the depreciation the profit would be increased.

Q. No, I am not asking you that. If the opinion of some gentleman like you makes the suggestion that was excessive depreciation and if the Company accepts his view, the duty of the Company is to first write up the profits account by the amount it had taken out of profits improperly, according to that view, and carry it to depreciation account, is that right?

A. The amount carried to depreciation account would

-- After adjournment.

Q. Let me try and work that out a little more and see if I understand it. Depreciation, as I understand it, is an entry in the books of the Company reducing the book value of the plant, of the --- A. Yes, and reducing the profit.

Q. And this amount you have is debited against profit account and therefore reduces the amount of the profit.

Q. If somebody comes who is of the opinion, as apparently you are, that the Company erred in its depreciation --- A. That the Company which erred in its depreciation - with hind sight, this gentleman thinks that the Company was over-cautious, over-conservative and depreciated too much and if that opinion is admitted as correct, I suppose the first thing to do, and you do it here, is to write up the profit account by the amount that was improperly put to depreciation? A. If the Company adjusted the depreciation the profit would be increased.

Q. No, I am not asking you that. If the opinion of some gentleman like you makes the suggestion that was excessive depreciation and if the Company accepts this view, the duty of the Company is to first write up the profits account by the amount it had taken out of profits improperly, according to that view, and carry it to depreciation account, is that right?

be less.

Q. Yes, we will come to that after. Could you answer one of my questions. If, in the opinion of some expert - I will leave you out of the question - some expert on the matter, if it appears that the Company was over-conservative, made a mistake in charging against the Profit Account, reducing its profit for the purpose of carrying a certain amount to depreciation and if the Company thinks that is right, the duty of the Company is to re-credit the profit account with what it improperly debited it with - can you say yes to that? A. Yes.

Q. I am glad of that. Now, if that is the case conversely it must correct its depreciation account otherwise the books would not balance. Yes. In other words, to make it short, they will reverse the entries that they improperly made? A. Yes.

Q. Now, do you suggest that if they had never made these entries, if the amount had stayed in profit account, it would be counted in determining what is a fair return on the investment but if they made those entries mistakenly and reverse them later on, when ---

MR. McRUER: Oh, ---

THE WITNESS: Oh, it is a little difficult just to get your question. It is so long I cannot keep it in mind.

MR. McRUER: My friend is talking about calculating what is a fair return on the investment.

THE COMMISSIONER: Do I understand the returns you read out the other day, and which are shown here, very large returns to the first investors, etc. smaller to the others, those returns are taken as you find the books of the Company to show them. That is to say, they are not after bringing into profits what you think unduly put into depreciation?

MR. McRUER: No, and if you bring them back into profits we will increase them.

MR. GEOFFRION: I am after something else. Your lordship, the $22,000,000, if after deducting $12,000,000 are on the books - it is not taking the books. The calculation of my friend ---

MR. McRUER: No. When I took the returns that were paid out to the original shareholders it was the returns of the investment and we added to it to find out what the equity still was, we added surplus as it appeared in the book.

MR. GEOFFRION: We are talking at cross purposes, I am not after that at all. I am not after demonstrating how much money the original promoters made. I am trying to get what is fair return that to-day's people are entitled to on their investment.

MR. McRUER: The investment that these people built up out of these very high profits.

THE COMMISSIONER: The investors to-day are making this fair return. Now, as I understand it, these figures are compiled to bring out that percentage

THE CHAIRMAN: Do I understand the returns
you read out the other day, and which are shown here,
very large returns to the first investors, etc.
smaller to the others, those returns are taken as you
find the books of the Company to show them. That is
to say, they are not either bringing into profits what
you think unduly put into depreciation?

MR. MORGAN: No, and if you bring them back to
profits we will increase them.

MR. CHOLMELEY: I am after something else. Your
lordship, the $25,000,000, if after deducting $12,000,
are on the books - it is not making the books. The
calculation of my friend ---

MR. MORGAN: No. When I took the returns that
were paid out to the original shareholders it was the
returns of the investment and we added to it to find
what the equity still was, we added surplus as it app
ed in the book.

MR. CHOLMELEY: We are talking at cross purposes,
I am not after that at all. I am not after ascertain
how much money the original promoters made. I am
trying to get what is fair return that to-day's inves
are entitled to on their investment.

[illegible]
as well at times very high profits.

THE CHAIRMAN: The investors to-day are mainly
this fair return. Now, as I understand it, these

according to the way the company itself has done just out of profits.

MR. GEOFFRION: Except for $12,000,000, my lord.

THE COMMISSIONER: No. Am I right in this?

THE WITNESS: The profits have not been altered at all.

Q. The $12,000,000 don't come into account at arriving ---

MR. GEOFFRION: I am not on that at all. I am not on the past profits. I am not discussing that question; I am discussing not what have been the past profits, I am discussing what should be to-day the basis for s future profits. I am going to argue that I am concerned with the future in this case.

THE COMMISSIONER: You want the witness's opinion for the benefit of the Company in the future?

MR. GEOFFRION: No, I would go elsewhere. I want evidence to show that these figures have nothing to do with the point of tariff fixing. It is the present value of my investment which is the basis for tariff fixing. I think it has been decided universally for rate-fixing for public services - whether there is any reason to distinguish between tariff fixing and rate-fixing is a matter of argument, I suppose. I am trying to get at this point. I want to first emphasize this: Let us forget for the present statement at page 9. I am finished with that. I am not speaking of past dividends. That chapter is closed for quite awhile.

according to the way the company itself has done just
out of profits.

MR. GROSVENOR: Except for $15,000,000, my lord.

THE COMMISSIONER: No. Am I right in this?

THE WITNESS: The profits have not been altered at
all.

The $15,000,000 don't come into account at
arriving ---

MR. GROSVENOR: I am not on that at all. I am not
on the past profits. I am not discussing that question.
I am discussing not what have been the past profits,
I am discussing what should be to-day the basis for a
future profits. I am going to argue that I am concerned
with the future in this case.

THE COMMISSIONER: You want the witness's opinion
for the benefit of the Company in the future?

MR. GROSVENOR: No, I would go elsewhere. I want
with the point of tariff fixing. Is the present
value of my investment which is the basis for tariff
fixing. I think it has been decided universally
for rate-fixing for public services - whether there is
any reason to distinguish between tariff fixing and ra
fixing is a matter of argument, I suppose. I am try
to get at that point. I want to first ascertain wh
that is to forget for the present statement at page 5.
I am not concerned with that.

but when you come to page 12 you certainly correct the books by $12,000,000 - I am not discussing whether you are right or wrong - you correct the book by $12,000,000? A. Yes, I took $12,000,000 out.

Q. You correct the book by $12,000,000 - say Yes to that? A. That is the figure.

Q. I forget where I was. In other words, you refer to the entry when they find out that they were wrong and that you over-depreciated by, say, $17,000,000? A. Yes, sir.

Q. As a matter of fact they had already reversed entries in that way to the extent of $12,000,000 in their books. That is right? The net results in the figures were as if they had reversed their entries to the extent of $12,000,000? A. No, $7,500,000 and $4,500,000 was the original.

Q. Is not that a very unimportant distinction. On the valuation they got in 1923 if the $4,500,000 had been taken care of earlier they would have been increased by $4,500,000 more? A. Yes.

Q. Therefore in view of the 1920 appraisal the great question of $4,500,000 for that period after 1920 loses its importance? A. Yes, they had charged $4,500,000 prior to that.

Q. I am coming back therefore to my question. Therefore when this company learns from a gentleman like you that they over-deppeciated they should, if they think it is right, reverse their entries.

books by $12,000,000 - I am not discussing whether you are right or wrong - You correct the book by $12,000,000?

A. Yes, I took $12,000,000 out.

Q. The amount was down by $12,000,000 - Am I to that?

A. That is the figure.

Q. I forget where I was. In other words, you refer to the entry when they find out that they were wrong and that you over-depreciated by, say,

A. Yes, sir.

Q. As a matter of fact they had already reversed ourselves in that way to the extent of $12,000,000 in their books. That is right? The net results in the figures were as if they had reversed their entries to the extent of $12,000,000?

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Q. Is not that a very unimportant distinction. on the valuation they got in 1929 if the $4,500,000 had been taken care of earlier they would have been increased by $4,500,000 more?

A. Yes.

Q. Therefore in view of the 1930 appraisal the great question of $4,500,000 for that period after 1930 Does it Immaterial?

A. Yes, that had changed $4,500,000 Plus it Not.

Q. I am coming back therefore to my question. Therefore when this company learns from a gentleman like you that they over-depreciated they should, if

You will answer that? A. Yes.

Q. On that basis do you suggest that there should be a difference from the point of view of determining what should be next year a fair return on the Capital invested - there should be a difference between those profits about which they never made erroneous entries in their books and those other profits in which they made erroneous entry and reversed? A. In relation to what?

Q. In relation to finding out what is to-day a fair basis for fair revenue? A. These statements are not prepared for that purpose.

MR. McRUER: That is not the purpose of these statements whatever to find out fair basis. No use---

THE COMMISSIONER: I will tell you what I understood. I understood that Mr. McRuer with these statements and through this witness was endeavouring to show that this Company through the years had been improperly charging large sums out of profits to depreciation, and consequently those interested in knowing did not know what the real profits of the company were from year to year. Now, is not that the purpose you had in mind?

MR. McRUER: Yes.

MR. GEOFFRION: I was afraid - I may be wrong - I am a little afraid of my learned friend and I think he will try to argue more when it comes to arguing.

MR. McRUER: I think you have a right to be afraid.

You will answer that? A. Yes.

Q. On that basis do you suggest that there should

be a difference from the point of view of ascertaining

what should be kept from a fair return on the capital

invested - there should be a difference between those

profits about which they have made erroneous entries

in their books and those other profits in which they

made erroneous entry and reversed? A. In relation

to what?

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fair basis for fair renewals. Those allow-

ances are not prepared for that purpose.

MR. MONROE: That is not the purpose of these

statements whatever to find out fair basis. No use-

THE COMMISSIONER: I will tell you what I under-

stand. I understood that Mr. [illegible]

[illegible] title without the [illegible]

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[illegible] charging large sums out of profits to

depreciation, and consequently those interested in

knowing did not know what the real profits of the co

were from year to year. Now, is not that the purpo

you had in mind?

MR. MONROE: Yes.

MR. ORGUNKION: I was afraid - I may be wrong

I was a little afraid of my learned friend and I might

[illegible] it was some [illegible].

MR. GEOFFRION: Not of your case, of you.

MR. McRUER: I don't ask you to be afraid of me. Afraid of what might be said about you.

MR. GEOFFRION: When I hear it I will answer it. At all events, I am fearing that my friend might use it as determining what might be a fair basis or I might be---

THE COMMISSIONER: Fair basis for what?

MR. GEOFFRION: What should be a fair profit as an element of protection.

MR. McRUER: I do not think there is very much difference between what Mr. Geoffrion is emphasizing and anything that I emphasized myself. Mr. Geoffrion is saying that if you had allowed and taken back into profits this $17,000,000 the Company would have had $17,000,000 more profit than is shown on his books of account. Now, he goes on to say: True, over these years we having made $17,000,000 more profit, that should be taken into consideration in saying that we have not got a sufficient return shown on this for the extra $17,000,000 that is still invested in the Company and remains in as the profit made over a period of years. As far as I am concerned he can conjure up any statement like that if he wants to. I do not think it is any portion of this inquiry and I certainly would not hwe suggested Mr. Howson going into any such mathematical calculation. What I am particularly interested in is the profits they have

actually made in the past with the tariff history put in by Mr. Hooper. I am relating these two things. I am not concerned whether they are not getting enough, having in mind the large profits they made in the past and still invested in the Company.

MR. GEOFFRION: I might be concerned in it.

MR. McRUER: Please do not attempt to abuse Mr. Howson.

MR. GEOFFRION: Am I abusing him?

MR. McRUER: You are suggesting his reputation is at stake.

MR. GEOFFRION: If I have hurt his feelings I apologize. If that is the only trouble I have given, the humblest apologies.

THE COMMISSIONER: It was I caused all this by pointing out to Mr. Geoffrion the purposes that Mr. McRuer had in mind in dealing with these figures. Now, you can use these figures with this same witness for any purpose you have in mind.

MR. GEOFFRION: He is only concerned in past profits and I am only concerned in present and future profits. Who is right or wrong, your lordship or the Executive will decide later on.

MR. McRUER: My friend does not put it quite accurately. It is not concerned in any future profits but it is future returns on the pfofits we have made, is what he is addressing himself to at the present time.

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things. I am not concerned whether they are not
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MR. MONDOR: Please do not attempt to abuse Mr.
Hyman.

MR. GEOFFRION: Am I abusing him?

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MR. MONDOR: My friend does not put it quite
accurately. It is not concerned in any future
profits but it is future returns on the profits ma
that would, is what he is addressing himself to at

MR. GEOFFRION: Now, I think that closes this interesting chapter. I want now a little interlude until I come back to something nearer. You always segregated - nearly always segregated except this morning, the subsidiaries from the trading operations, until this morning we have all that horrible mistake, but until then you have been segregating generally in your statement the subsidiaries from the trading operations? A. Yes, in this Company.

Q. Well now, in this Company am I not to understand that there are among the investments of subsidiaries wholly owned subsidiaries and controlled subsidiaries in this very business? A. Yes.

Q. As a matter of accurate handling of a problem such as this one do you think in regard to these investments the segregation is justified? A. Yes, sir.

MR. McRUER: I would be satisfied to have them segregated, if you will give us a list of your returns from subsidiaries as distinct from the returns over this ten-year period from outside investments, so that we can make the comparison perfectly fairly and that is, the income you received from investments in companies who are not owned subsidiaries at all. I will be quite pleased to have that distinction made.

MR. GEOFFRION: I don't know what the effect will be at all.

MR. McRUER: I have not the slightest idea.

MR. GHOUTHION: Now, I think that closes this

until I come back to something nearer. You always

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until this morning we have all that horrible mistake,

but until then you have been segregating generally

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that is, the income you received from investments

in companies who are not owned subsidiaries at all.

I will be quite pleased to have that distinction made

MR. GHOUTHION: I don't know what the effect will

MR. GEOFFRION: But for the matter of accuracy I would say there is a difference between these two.

MR.McRUER: I agree with you.

MR. GEOFFRION: Q. Now, the other item of the subsidiary is the investment of surplus moneys the Company has and does not like to distribute to its shareholders and does not feel that it needs the money in its business, must put it somewhere, the balance ?

A. I don't know why they invested it, their outside investments in other companies and securities of one kind and another.

Q. I would assume that any company keeps a certain amount of assets available which it does not like to distribute to its shareholders and must put it somewhere. If a company has money that it does not think fit on account of conditions to use in its business it must either distribute it as profit by dividends or must put it in the savings bank or put it in a hole in the earth or put it in investments?

A. Yes, sir.

Q. And many companies keep some money available over and above the actual money engaged in the business?

A. Yes.

Q. And is a good practice? A. It is a wise position.

Q. And on that the Company will get whatever return a savings bank will give, if you put it in a savings bank, or what the Dominion Government will give if you

Number Name

MR. GUSTAFSON: But for the matter of economy, I would say there is a difference between those two.

MR. MOHN: I agree with you.

MR. BUCHANAN: Q. Now, the other item of the subsidiary is the investment of surplus moneys the company has and does not like to distribute to its shareholders and does not feel that it needs the use in its business, must put it somewhere, the reserve I don't know why they invested it, their outside investments in other companies and securities of one kind and another.

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A. Yes, sir.

Q. And only available [illegible] over and above the actual money employed in the business?

A. Yes.

Q. And is a good protection? A. It is a wise position.

put it in Government bonds or what the whole will give if you put it in the hole? A. Yes.

MR. McRUER: Sometimes you are wasting it to put it in the hole. Sometimes we wish we had put it in the hole in the ground.

MR. GEOFFRION: Sometimes we put it in an investment which turns out to be a hole.

MR. McRUER: A bottomless one.

MR. GEOFFRION: Q. There is another slight thing, a minor point I would like to correct - at least try to correct. You have calculated your percentage of sales at page 13 - many of your calculations are based on a percentage of the equity in the common stock? A. Yes, we have arrived at the equity of the common stock.

Q. Is not there an objection to that system, which is this one, that on that basis two similar companies would show - earning the same amount - would show different results according to the form of their financial statement. If one company has only common stock, the other half, common stock, and half bonds, and the company earns 10%, say, on its investment, the bonds take 5%, the common stock will get some 15% or something like that, I am not quite sure - do not you think the system of making the examination of a company depend on the extent of its financial structure is erroneous and should be taken on the plant?

A. No, the company only pays for its bonds what it contracts to pay for. What we are showing here

is the return on the common stock equity.

Q. Is that an answer of any point that according to that system a fair return on the invested capital will vary according to the financial structure of the company, whether bonds or no bonds? A. The figures are all here. You can figure that out.

Q. Now, before I go beyond. I made a gentleman figure out for me what would be the correction in your percentages at page 11? A. That is 7 or 11?

Q. 7 or 11, yes. I took 1936 simply to simplify it and I took the percentage of net revenue ---

THE COMMISSIONER: You are looking at this page 11 now?

MR. GEOFFRION: Yes. 1936 is the year I take. It is page 13, I am sorry.

THE WITNESS: That would be 9, would it?

Q. 7 and 13.

THE COMMISSIONER: If the heading of it "Distribution of profit"?

MR. GEOFFRION: Yes, "Memorandum of distribution of profit." I am taking 1936, second last line. It is the percentage of net revenue from trading applicable to common stock, to common share equity employed in operation? A. That Item of 12.3?

Q. Yes? Now, I would ask you to attempt to make an effort of assuming that I am right in my suggestion, that the Company has a right and should reverse its entries, if you are right, and therefore that our

capital should be written up by the $17,000,000. My suggestion is, and I will let you check it up at adjournment if you like, that the percentage instead of being on net revenue from trading applicable to common stock to common stock equity employed in operations, would be 3.1 instead of 12.2 ? A. Yes, if you are taking that, making that assumption, have not you got to change your profits for the years?

Q. By the extent that I have overwritten that year? A. Can you tell me what that is?

Q. No---

MR. McRUER: I do not think you want that figure at all because I am quite willing for this to be done, to go right back to the beginning of the Company over the period in which these profits ---

MR. GEOFFRION: You can do what you like. I am unconcerned.

Q. You told me there is an amount written off in 1936 that affected the $17,000,000 or is it $17,000,000 before 1936 writing off? A. No, $17,000,000 includes 1936.

Q. Therefore you should add the 1936 writing off what you think is excessive? A. Whatever it is. I have not determined what is excessive from year to year.

Q. You won't say that that is written right off? A. No, I am not saying that.

Q. And that this sum would be open to such correction

as would result from a holding that what we did write off in 1936 was excessive? A. Well, the whole period was excessive on that basis.

Q. I am dealing with 1936? A. And naturally 1936 would be in the same category.

Q. You would have to find out how much the writing off of 1936 was excessive to correct the statement? A. Yes, sir.

Q. You must assume - and you do I know - that the writing off was excessive in 1936, you must determine how much the excess was and then you would have to add that to percentage? A. To your profits and then ---

Q. My suggestion - when I come to that in a minute - my suggestion is going to be that the writing up was not excessive. Therefore, reserve your qualificiations if you are right. Assuming let us do now, not only that I am right in my first claim that $17,000,000 should be counted for to-day's fair --- A. This is purely assumption.

Q. Oh, don't be afraid, I have no daggers or anything of the sort. Assuming also, but I also claim and I would try to prove this afterwards, that our writing off was not excessive in 1936. Will you please tell me if this is right or wrong - you can check it up if you like,---

MR. McRuer: Are you just taking the year 1936?

MR. GEOFFRION: I am concerned with that. You can

take as many as you like.

THE WITNESS: You want me to check this up during the lunch-hour?

MR. McRUER: A most distracting sort of way to deal with it.

MR. GEOFFRION: We will argue that later.

THE COMMISSIONER: We will adjourn now.

-- Adjourned at 12.30 P.M. to resume at 2.15 P.M.

ROBT. BRYDIE
Shorthand Writer
Reporter

CONTACT — CANADA

LONDON

-- The Commission resumed at 2:15 P.M.

E. J. HOWSON, Cross Examination continued.

BY MR. GEOFFRION: Q. Mr. Howson, with that exhibit there, taking my two assumptions as admissions -- no, as assumptions, not as admissions --

A. That is correct.

Q. All right, then, well, assuming these things --

THE COMMISSIONER: What is that.

MR. GEOFFRION: This statement, assuming two things, my lord, first that I am right in my suggestion that the $17,000,000. should be added to the common stock holders' equity as calculated in the statement, page 12 and assuming further that the depreciation of 1936 was not excessive, on those two assumptions the 12.2 on page 13 should be 3.1 ?

A. That is right.

Q. Will you please file that ?

THE COMMISSIONER: That will be exhibit 949.

ASSISTANT SECRETARY RENE: 950, my lord .

THE COMMISSIONER: Pardon me, I am wrong, 950.

MR.McRUER: You haven't a copy of that, have you ?

MR. GEOFFRION: No, but I will give it to you this evening.

MR. McRUER: You don't need to worry. I just thought you had one handy. Don't worry about it.

EXHIBIT No. 950: Ratio of net revenue from trading (applicable to common stock) to Common share equity employed in operations, 1936.

The Commission resumed at 2:15 P.M.

BY MR. CORNISH: Q. Mr. Mason, with that ex-

might there, taking my two assumptions as conditions

-- no, as assumptions, not as admissions --

A. That is correct.

Q. All right, then, well, assuming those things

MR. CORNISH: This statement, assuming two

things, my Lord, first that I am right in my interpre-

that the $17,000,000. also d be added to the common

stock holders' equity as outlined in the statement

page 13 and assuming further the depreciation c

1930 was not excessive, on those two assumptions th

18.2 on page 16 should be 8.1 ? A. That is

Q. Will you please file that ?

THE [illegible]: That will be exhibit 962.

[illegible]: Pardon me, I am sure, you

M. MORRIS: Don haven't a copy of that, have

Page 7

MR. CORNISH: No, but I will give it to you

MR. MORRIS: You don't need to worry. I just

thought you had one handy. Don't worry about it.

EXHIBIT No. 960: Ratio of net revenue

BY MR. GEOFFRION: Q. Now, in your calculations, on pages 12 and 13, the pages referring to the statements, you include, of course, the surplus account as shown in the books ? A. Yes.

Q. Namely, these profits that have been left in the company, not distributed or appropriated to depreciation; that is about it ? A. Yes.

Q. Therefore it follows if we had not made the mistake -- you suggest a mistake -- of over-depreciating these amounts would be in our surplus account ?

A. Your surplus account would be larger.

Q. Then you would have credited our surplus account even if larger in that case ? A. Yes, because the depreciation had been included.

Q. If we had not by a mistake, according to your view, carried some of our profits to depreciation and left it in the surplus account our surplus account would have been larger and that fact would not have prevented you in crediting in your statement surplus account ? A. In this ten year period.

Q. In any period ? A. This is a ten year period.

Q. If your statement had been a five year period it would be the same thing, or a 15 year period ?

A. Yes.

Q. Now, I ask you to turn over -- now, I have lost my exhibit .

THE COMMISSIONER: Here, take this one.

BY MR. GEOFFRION: Q. Will you please turn to page 7 or 1 according to me, of 917 ? A. It is the

BY MR. COURTRIGHT: Q. Now, in your calculations, on pages 12 and 13, the pages referring to the exhibits, you include, of course, the surplus account as shown in the books ? A. Yes.

Q. Namely, those profits that have been left in the company, not distributed or appropriated to depreciation; that is about it ? A. Yes.

Q. Therefore it follows if we had not made the mistake -- you suggest a mistake -- of over-depreciation these amounts would be in our surplus account ?

A. Your surplus account would be larger.

Q. Then you would have credited our surplus account even if Lorenz in that case ? A. Yes, because the depreciation had been included.

Q. If we had not by a mistake, according to your view, carried some of our profits to depreciation and left it in the surplus account our surplus account would have been larger and that fact would not have prevented you in creating in your statement surplus account ? A. In this ten year period.

Q. In any period ? A. This is a ten year period.

Q. If your statement had been a five year period it would be the same thing, or a 15 year period ?

A. Yes.

Q. Now, I ask you to turn over -- now, I have

one headed "Summary of Operations".

Q. Yes, 1905 to 1936; I see you are careful to say that the $6,375,000. represents cash paid on common stock ? A. Yes.

Q. You know,as a matter of fact, and I think you have said so already, that according to the books of the constituent companies, the old companies, the four original companies that were merged in the Textile the assets were shown, the assets which the Textile Company ultimately took over were shown at $2,271,000., I think,over the securities issued in payment for them ? A. Yes, according to the valuations placed in the old companies' books.

Q. Now, you have no greater reason to reject that valuation than you have to reject the valuation of the insurance appraisal, no reason to reject it ? A. Oh yes, I have.

Q. What is the reason ? A. You are asking me what it is ?

Q. Yes, you say you are rejecting the valuation of the books of the old companies ? A. Yes.

Q. You say you have a reason for rejecting that valuation; why ? A. In the first place the company itself wrote off $1,339,000. and an additional $580,000. from the valuation of the assets.

Q. Who did ? A. The company.

Q. Which company ? A. The Dominion Textile Company .

Q. After taking them in ? A. Yes, and another reason I have is that the Dominion Cotton Company and

one headed "Summary of Operations".

. Yes, 1905 to 1926; I see you are careful to

say that the $3,375,000. Represents cash paid on comp

stock ? A. Yes.

. You know, as a matter of fact, and I think you

have said so already, that according to the books of

the constituent companies, the old companies, the for

original companies that were merged in the Textile Th

ultimately took over were shown at $3,871,000.. I

think, over the securities issued in payment for them

A. Yes, according to the valuations placed in the old

companies' books.

. Now, you have no greater reason to reject the

valuation than you have to reject the valuation of

the insurance companies, no reason to reject it ?

. Yes, I have.

. What is the reason ? A. You are making

me what it is ?

. Yes, you say you are rejecting the valuation

of the books of the old companies ? A. Yes.

. You say you have a reason for rejecting that

valuation; why ? A. In the first place

$3,000. Upon the valuation of the assets.

. Who did ? A. The Dominion Textile

Company.

. Which company ? A. The Dominion Textile

Company.

. After taking it in ? A. Yes, and

one or two -- I think there were three companies sold their stocks at considerably less than par value.

Q. How long before ? A. At the time of this transaction the Dominion Cotton stock, for instance, was sold at 55 cents on the dollar.

Q. The second reason is easy to understand. In other words you say the fact they sold at less than the book value is one reason for not admitting the book value ? A. For not admitting the book value.

Q. For not considering the book value ?

MR.McRUER: That is the full book value.

MR. GEOFFRION: Yes, I will take care of that in a minute. At least I think I can. The first point is something new to me. You say the Textile Company wrote down these assets? A. Yes.

Q. When ? A. I don't think I have the exact date, but there was one item of $1,339,000., it was when they finally acquired the balance of the Dominion Cotton shares.

Q. That was about 15 years after ? A. 1920, was it, somewhere around there, 1921?

Q. You are introducing a factor I don't know of. The other one I know perfectly of ? A. Prior to that they had written off five hundred and eighty odd thousand dollars.

Q. Then, I suppose I cannot proceed with you on that angle further if there is a question of fact on which I am not informed. You say at some time; you don't know how long after 1905 ? A. It was when they acquired, when they finally acquired all the

one or two -- I think two was Mrs. Carpenter's and
their stocks at considerably less than par value.

Q. How long before ? A. At the time of the
transaction the Dorchilon Cotton Mill, for instance,
was sold at 35 cents on the dollar.

Q. The second reason is many to understand. In
other words you say the fact they sold at less than
the book value is one reason for not applying the book
value ? A. For not applying the book value.

Q. For not eliminating the book value ?

MR. HOLT: That is the full book value.

MR. CARPENTER: Yes, I will take some of that in
something new to me. How say the Pacific Cotton Mill

Q. When ? A. I don't think I have the
exact date, but there was one item of $3,000,000., in
was when they finally acquired the balance of the

Q. That was about 15 years after ? A. 1900

Q. You are referring a factor I don't know of.
The other one I know perfectly of ? A. Prior to
that they had written off five hundred and eighty odd

Q. Then, I believe I passed to you to be
that Dodge Brothers is also a question of fact on
which I am interested. You say it was; you
don't know the last date ? A. It was when

shares of the Dominion Cotton Company and incorporated the value of the plant onto their books.

MR. McRUER: I think that is 1917.

BY MR.GEOFFRION: Q. That is 11 years after?
A. Somewhere around 1917.

Q. Of course, in 1920 there was a write up immediately after, in 1920 there was an appraisal ?
A. Yes.

Q. Which involved the writing up to $7,500,000. which in a way absorbed in addition the $4,500,000.
A. Yes, the write up was in 1923.

Q. But the appraisal was in 1920 ? A. Yes.

Q. We have an appraisal in 1920 and you have no reason to dispute that appraisal in 1920 ? A. No.

Q. Now, I am told that the write off you refer to was off the gross value and did not affect the net value, the net surplus value of $2,271,000.; are you sure of that ? A. Yes, I am sure of it, because on the schedule that the company gave me, which is Exhibit 944 they set up plant taken over at the gross value -- or the book value of the old companies right here on this exhibit. They are all set out here under date of April 1st, 1905.

Q. I will put it this way to shorten this thing. I am suggesting, and of course, I want to be fair to you in cross examination because you may be contradicted-- I am suggesting the write off you are speaking of in addition to coming on eleven years after and being just three years before the appraisal which far more than offsets the write-off, apart from that it was on the gross value and did not affect the question

share of the Dominion Cotton Company and increasing
the value of the plant onto their books.

MR. MORGAN: I think that is right.

BY MR. DONNELLY: Q. What is it years after?

A. Somewhere around 1917.

Q. Of course, in 1920 there was a write up immediately after, in 1920 there was an appraisal?

A. Yes.

Q. Which involved the writing up to $7,000,000.
which in a way absorbed in addition the $4,000,000.

A. Yes, the write up was in 1920.

Q. But the appraisal was in 1920? A. Yes.

Q. We have on of record in 1920 and you have no reason to dispute that appraisal in 1920? A. No.

Q. Now, I am told that the write off you refer to was off the gross value and did not affect the net value, the net surplus value of $4,841,000.; are you sure of that? A. Yes, I am sure of it, because on the schedule that the company gave me, which is

value -- or the book value of the old companies right
here on this exhibit. They are all set out here exactly
as of April 1st, 1925.

Q. I will put it this way to shorten this thing
I am suggesting, and of course, I want to be fair to
[illegible] suggesting the write off you are speak
[illegible] in addition to coming on eleven years after
[illegible] just three years before the appraisal which [illegible]

of surplus and net value; I am suggesting that to you ? A. What do you mean by net value ?

Q. Your net value is the surplus -- A. No, it had nothing to do --

Q. I am told the surplus remained at $2,271,000. notwithstanding the write-off. Thewrite-off had not effect on the book surplus ? A. The write-off was charged against goodwill account, the $1,339,000. write-off was charged against goodwill account. The balance of goodwill account was finally charged to plant and machinery account.

Q. The write-off was against $4,500,000. put down as goodwill ? A. The actual amount was $4,900,000. They set up a goodwill account of $4,900,000. Then they wrote off $1,339,000. representing excess value of the Dominion Cotton Company plant against this goodwill account. Then, the balance of the goodwill account, as I show in this statement number 2, was charged to plant and machinery.

Q. The point I am putting to you, and I want to be fair to you in case you will be contradicted later on is that the $2,271,000. surplus value of the physical assets over the securities issued against them was not disturbed by that write off. Do you say yes or no to that ? A. I would say it was disturbed by that.

Q. It was disturbed ? A. Yes.

Q. It will be an issue between accountants and I gracefully withdraw from the fight. The books will be there for that. Now, leaving that reason aside

the other reason you suggest is that the price paid was less than the book value ? A. Yes.

Q. That, of course, you will admit is a rather weak reason, isn't it ? A. Why ?

THE COMMISSIONER: A rather what ?

MR. GEOFFRION: The price paid was less than the book value.

THE COMMISSIONER: What do you say ?

MR. GEOFFRION: I say it is a rather weak reason. The companies were doing very badly; do you know that ?

MR.McRUER: I don't think that is a fair statement on what we read of the record.

MR. GEOFFRION: Well, I will withdraw the word "very". They were not doing well ? A. The only thing I have is their balance sheets.

Q. You don't know. Of course, it happens to a company that is given the opportunity to get higher class securities such as bonds and preferred stock, a company that is not doing very well, and it accepts a little less than the par value, its book par value ? A. These bonds were secured on the same assets which they had sold. So how much better off would they be. They had full control of their assets before. They owned them. Now, they just had a mortgage on them.

Q. Formerly they were not doing very well with their full control, were they ? Then, they have a million dollars more put in the business and some gentlemen who were prominent in finance in Montreal

the other reason you suggest is that the price paid

less than the book value ? A. Yes.

Q. That, of course, you will admit is a rather

weak reason, isn't it ? A. Why ?

THE COMMISSIONER: A rather what ?

MR. CHOUINARD: The price paid was less than the

book value.

THE COMMISSIONER: What do you say ?

MR. CHOUINARD: I say it is a rather

you know that ?

MR.MOYNIHAN: I don't think that is a fair state-

ment on what we read of the record.

MR. CHOUINARD: Well, I will withdraw the word

think I have in their balance sheets.

Q. You don't know. Of course, it happens to a

company that is given the opportunity to get higher

class security like such as bonds and preferred stock,

a company that is not doing very well, and it accepts

a little less than the par value, its book par value

A. These bonds were secured on the same assets which

they had sold. So how much better off would they

be. They had full control of their assets before.

Q.

Q. Formerly they were not really very well

fully controlled, were they ? Then, they have a

to run it, and do you say that has no value ?

MR. McRUER: Should we appraise the value of these gentlemen ?

THE WITNESS: The value was in the management of the new people coming in.

BY MR. GEOFFRION: Q. You insist on the point that there is nothing tangible to be considered in the extra book value of $2,271,000., and that is for the reasons you have just given ? A. Yes, in connection with this inquiry.

Q. Of course, at that time it was a sale by shareholders ? A. I do not recall just what the basis of the sale was .

Q. You know they simply bought shares for these securities and it was not property. They bought shares, they bought the shareholders' shares for these securities and not the property itself except long after.

MR. McRUER: Gave them 50 cents on the dollar.

MR. GEOFFRION: We are not before the Privy Council. I am coming to that.

MR.McRUER: When you are dealing with this particular item it is important because when they dealt with the shareholders they only gave them 50 cents on the dollar.

MR. GEOFFRION: On the par value, that is all very well.

THE COMMISSIONER: That will be a proper matter for you to bring on again.

BY MR. GEOFFRION: Q. At all events I understand that this, at that time was a purchase of shares, and not a purchase of the property;do you know that ?

A. That is what they state here, and I think the evidence indicates that.

Q. You know that a minority of the shareholders stayed out and litigated up to the Privy Council ?

A. I have read it in the evidence.

Q. You think that $2,271,000. is not a tangible asset contributed by the syndicate, but you will admit as a matter of finance that if there was really an additional value in the property of $2,271,000. that belonged --

MR. McRUER: You are using a figure I don't think is correct ?

MR. GEOFFRION: Yes, he has corrected it.

THE COMMISSIONER: Just a moment, my attention was called to a telegram.

MR. GEOFFRION: In your testimony you corrected it.

THE COMMISSIONER: What is the question ?

BY MR. GEOFFRION: Q. I say you admit that if there was a physical value in the assets -- a value in the physical assets, rather, transferred over from the old companies to the syndicate, and then to the new company of $2,271,000., or if you prefer $2,191,000., I don't care -- A. You are referring to this figure on the sheet ?

Q. You remember you corrected it in your testimony. I won't quarrel about that. A. I explained the difference between the $2,271,000. and the $2,191,000. which I used --

Q. At all events it is not very important.

A. MR.McRUER: Just a minute, let him complete his answer.

THE WITNESS: The figure Mr. Geoffrion is talking about is the figure on sheet No.2 which is $2,191,000. I deal with $2,191,000.

MR. GEOFFRION: At all events we won't quarrel over a bagatelle of $80,000.

BY THE COMMISSIONER: Q. Sheet No. 2 ? A. Sheet No.2 of the Dominion Textile group.

Q. In this Exhibit ? A. Yes.

BY MR. GEOFFRION: Q. Let us forget whether I am right at $2,271,000. or you are right at $2,191,000.; that won't make much difference to my question. If there was a surplus value in the physical assets transferred over from the constituent companies of "X" , if you like, or $2,191,000. or $2,271,000., I don't care, you admit that was the property of the syndicate ? A. Well, I am not familiar --

Q. You don't know; that is all right. Probably you don't know that. Then, we will leave it at that then. Do you take the position that intangible values should be ignored in deciding whether stock has been fully paid up or not ? A. In relation to what, Mr. Geoffrion ?

Q. As a matter of law ? A. I am not a lawyer.

THE COMMISSIONER: What is your proposition of law.

BY MR. GEOFFRION: Q. Do you suggest that intangibles, if they have a real value, should be ignored in determining whether stock has been fully paid up or

answer.

about is the figure on sheet No.2 which is $2,191,000.

I deal with $2,191,000.

MR. GOODMAN: At all events we won't quarrel

BY THE COMMISSION: Q. Sheet No. 2 ?

A. Sheet No.2 of the Dominion Textile group.

Q. In this exhibit ? A. Yes.

BY MR. GOODMAN: Q. Let us forget whether I am right at $2,891,000. or you are right at $2,191,000. that won't make much difference to my question. Is there was a certain value in the physical assets transferred over from the consolidement companies of "X" , if you like, of $2,191,000. or $2,891,000., I don't care, you admit that was the property of the syndicate.

A. Well, I am not familiar --

Q. You don't know; that is all right. Probably you don't know that. Then, we will leave it at that then. Do you take the position that intangible value should be ignored in deciding whether stock has been fully paid up or not ?

Q. You are a barrister at law ? A. I am not a lawyer.

not ? A. I am not discussing that question at all.

Q. You refuse to answer that question , all right. Now, you will admit, won't you , that getting all these companies together, getting them, if I am right on my previous proposition which you dispute, getting them at less than their value, getting them to be paid for in securities of the new company, you would pay an agent to do that ? It is worth something ? A. Usually negotiations cost money.

Q. There is more than negotiations here, isn't there ? Do you think if Mr. Beauregard, Mr. McRuer, myself, and Mr. Heward had come and had a million loose -- A. It would have cost a lot of money then.

Q. This is a service, is it ? A. Yes.

MR.McRUER: You don't know any opportunities at the present time, do you ?

MR. GEOFFRION: No, I am sorry. Services can be used in payment of stock ? A. They are.

Q. By law, recognized by law; now, of course, it is impossible for anybody to estimate the value of the services here in this case ? A. I would think it would be difficult.

Q. There is one way, isn't there ? The very next year, the very next year looking at your figures, and I understand there was no change in the tariff ?

A. I don't know that.

Q. Assuming that, these gentlemen the very first year earned only 23 per cent on their $500,000. with no change in the tariff. Does that not suggest to you

this build-up was valuable ? A. It suggests to me the management of this company, this new company was very successful.

Q. There might be something apart from the management in that one year. It must be something in the set up itself ? A. I think the management has a whole lot to do with it. Before the Dominion Cotton Company came into this thing under different management they could not make any money at all and they were the biggest unit in the group. They were the biggest unit by a good deal.

Q. These people united them together, as the first thing, put in a million the second thing, five hundred for common stock and five hundred preferred stock, buy them cheap and in securities and you say that is not in some way reflected in the brilliant success of 23 per cent without a change of tariff the first year? A. I did not say that. I said it was a very successful operation.

Q. You are trying to contradict me ? A. Excuse me, I am not.

Q. I am asking you to admit that some part was due to the services in organizing it ? A. Oh yes.

Q. All right; that is a value, isn't it , applicable to common stocks ? A. Yes, there is a value to it.

Q. And that value with management during one year allowed them to earn 23 per cent on their common stock with no help from the tariff ? A. I don't know about the tariff.

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Q. No change in the tariff; in other words in this sense you can contrast the previous company's success.

THE COMMISSIONER: Well, the tariff is the same.

MR. GEOFFRION: What I mean by no help is that you can make a contrast. The improvement was not due to the help of the tariff.

MR.McRUER : It just shows you what can be done without the assistance of the tariff.

MR. GEOFFRION: Well, higher tariff, without increasing the tariff.

MR.McRUER: Without any further assistance.

MR. GEOFFRION: Without further assistance, all right. Of course, I think you at least concede that to me. I find it difficult to get you to concede anything to me. During the first year the management did not have much time to get into its stride, it did not give a chance to the management for a few months to get into its stride ? A. They seemed to me to get into their stride very quickly.

Q. Yes, because you were unwilling to admit there was anything in thepreliminary organization; if you are willing to admit it all I suggest is the bulk of its improvement must be improvement in organization in the first year ? A. I don't quite get that point.

Q. All right, I have got it; that is enough. Of course, I suggest that the next year the profits jumped from 23 per cent to 55 per cent.

MR.McRUER: Wheredo you get the 23 per cent ?

THE WITNESS: No, I don't think so.

MR. GEOFFRION: One hundred and seventeen out of five hundred.

MR. McRUER: Oh no -- Oh yes, that is right, that is correct.

MR. GEOFFRION: On my mathematics, but I am not stubborn.

MR.Mc RUER: You are right.

MR. GEOFFRION: I am $2,000. out, I think. Then, the next year it jumps to 55 per cent, doesn't it ? A. Four hundred thousand on five hundred.

Q. You deduct the previous one hundred and seventeen? A. Yes.

Q. Which would seem to suggest the first year was organization and the next year was management otherwise you cannot explain the jump, all on the same tariff. Now, sir, I will come to another subject. Will you please turn to page 7.

MR.McRUER: What page of this Exhibit ?

MR. GEOFFRION: Page 7 of yours.

THE COMMISSIONER: Summary of Operations ?

MR. GEOFFRION: Yes. A. That is the first page of the group.

Q. Of the Dominion Textile Department; I read here "Approximate surplus values in plant" amounting to $17,000,000. Therefore, we have got this fact that there is a surplus value in plant. Now, "provided by over depreciation "; now, I am interested in the over depreciation question. I will take the other one after. What makes you say it is over depreciation,

Mr. GLOVER: One hundred and seventeen out of

Mr. NEWSON: Oh no -- Oh yes, that is right.

that is correct.

Mr. GLOVER: Oh my mathematics, but I am not

Mr. CHAIRMAN: I am $2,000. out, I think. Then,

the next year it jumps to 50 per cent, doesn't it ?

A. Four hundred thousand on five hundred.

Q. You deduct the reserves one hundred and seven

A. Yes.

Q. Milton would seem to suggest the first ; our wage

organization and the next year's management obser-

wise you cannot explain the jump, all on the same

Now, sir, I will come to another subject. Will you

Mr. CHAIRMAN: Page 7 of yours.

Mr. CHAIRMAN: Summary of operations ?

Mr. GLOVER: Yes. A: That is the first

page of the Group.

Q. Of the Dominion Textile Department; I read

page "approximate sales value to Plant" amounting

to $17,000,000. Therefore, we have not this fact

by over depreciation "; Now, I am interested in the

depreciation question. I will take the other

simply because the property is worth more to-day than its depreciated value ? A. Yes, and because the company also made certain statements along that line, Exhibit 329.

Q. Using Hind sight, and taking the present value of the property as you appraise it you find that the depreciated value is lower than that; is that it ? Is that your whole argument about over depreciation ? A. No.

Q. What is it then ? A. In the first place the company has made a statement to that effect.

Q. Where ? A. In Exhibit 329.

BY THE COMMISSIONER: Q. Let me understand; what is it ? A. There are two paragraphs here, one at page 15 under "Increase"-- the first paragraph is headed "Increase in value of Physical Assets".

> "Over a period of fifteen years, the physical assets acquired in 1905, and worth approximately $11,000,000 at that time, had been doubled in value through a steady program of yearly replacements and betterments, combined with the natural appreciation in valuesof all kinds between 1905 and 1920. The last Balance Sheet of the original Company, March 31, 1923, showed the Land, Buildings and Machinery at a net va value of $13,003,120.42. The first Balance Sheet of the new 1922 Company, March 31,1924, carried these fixed assets at $20,178,023.65, giving closer effect to the actual appraisal

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values represented in the Company's holdings of Land, Buildings and Machinery.

"Creation of Additional Values.

"It is not difficult to trace the step-by-step building up of additional values. The Company's Balance Sheet as at March 31,1924, shows that $5,390,002.90 had been put back into the Company through reinvested profits, the greater part of which would naturally be represented in additions to plant and equipment. It is important to point out that these profits were arrived at only after full provision was made out of earnings for depreciation and obsolescence of plant and machinery. The Effective Depreciation written off over the period to 1924 amounted to $9,400,156.43, which was more than sufficient to take care of actual wear and tear and to cover, as well, capital losses, amounting to $540,895.85, incurred in disposing of certain unprofitable units of the old Dominion Cotton Mills Co. Limited, where manufacturing operations were discontinued. Over the same period, the Company had followed a policy of keeping its physical properties in the best possible state of repair, and had spent $6,926,746.50 on repairs to buildings and machinery. The new set-up in 1923 only served to give recognition to the true position of the Company,and it was in no sense the means of introducing 'water' into the Company's capital structure."

That is the first reason, the second reason is they continued to write off heavy depreciation and continued to charge very heavy charges to operations for repairs and improvements.

BY MR. GEOFFRION: Q. I would like to distinguish because to me the amount really applicable is really very different. A. Which?

Q. I would like to distinguish between over depreciation and charging betterments to repairs. Have you any idea what amount of your $17,000,000 is betterments charged to repairs? A. No, I cannot tell you that.

Q. Of course, charging repairs to repairs is all right; repairs to repairs account is perfect? A. If they are proper pepairs.

Q. I said charging repairs to repairs' account is all right? A. Yes.

Q. If they are not repairs they are not repairs? A. Ordinary repairs.

Q. But charging betterments to repairs is diminishing profits? A. Yes.

Q. Charging betterments to repairs is really scaling down profits? A. Yes.

Q. And charging repairs to repairs is not scaling down profits? A. No.

Q. Now, can you tell me how much for betterments was charged to repairs? A. No, we did our best to find that out. If you will look at the letters which were attached to the questionnaire, or your files at the same time, you will find two

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letters from the Company trying to give us a memorandum and they have not been able to complete it.

Q. We don't know that now ? A. We did what we could to get that figure.

Q. I am not criticizing your efforts, sir.

A. I am just telling you we tried to get that figure.

Q. You have not got it ? A. No.

Q. Then, let us try and restrict our consideration to over depreciation. Do you suggest that since the Income Tax Act that this company has depreciated more than wh at the Income Tax Department allows ? A. I don't know, I haven't been able to compare it with the Income Tax Department.

Q. It is easy to compare ? A. No, I haven't access to the Income Tax Department files at all.

Q. No, but there is a rate allowed by the Income Tax Department for depreciation. A. I don't know what the Income Tax Department has allowed. I understand from Mr. Gordon they have not settled it yet, that the matter is still open.

MR.McRUER: Probably it will be open wider than it was before.

MR. GEOFFRION: I think you are all wrong. I am dealing with depreciation of plant ? A. Exactly, that is what I am talking about.

Q. Do you suggest depreciation on plant is --

A. I understand from Mr. Gordon it isn't set_tled yet.

THE COMMISSIONER: That is what Mr.Gordon told the witness.

MR. GEOFFRION: I am told the amount is not calculated but the rate is settled. A. I don't know what the basis of difference is between them.

Q. You cannot tell us whether we depreciated over that? A. No.

Q. Now, as a matter of fact, the Income Tax Department keeps a watchful eye on depreciations? A. Yes.

Q. They have to because the more depreciation the less Income Tax? A. Yes.

Q. And we will concede they do their best to get us to pay as much money as they can get out of us? A. That is their business.

Q. You have no doubt they live up to their business? A. As far as I know they do.

Q. Therefore, would you suggest that the depreciation that after exhaustive inquiries the Income Tax Department thinks reasonable, thinks to be as much as should be exempt from Income Tax, should be treated as excessive depreciation? A. I don't think the Income Tax Department's depreciations are based on any theoretical basis at all. I don't think they have a sound basis for depreciation on the actual wear and tear. It is just the basis the Income Tax Department has arrived at.

Q. I suppose in trying to arrive at that they did their best? A. I don't know what they did.

Q. Your suggestion is that they ignored certain depreciation, allowed certain depreciation to be exempt and allowed the taxes to be not paid.

MR. GOLDFIELDS: I am told the amount is not set-

culated but the rate is settled. A. I don't kno-

Q. You cannot tell us whether we compensated

A. No.

Q. Now, as a matter of fact, the Income Tax De-

A. Yes.

Q. They have to because the more depreciation

less Income Tax? A. Yes.

Q. And we will concede they do their best to

us to pay as much money as they can get out of us?

A. That is their business.

Q. You have no doubt they live up to their bus-

Q. Therefore, would you suggest that the depre-

ciation that after exhaustive inquiries the Income

as should be exempt from Income Tax, should be treate-

as excessive depreciation? A. I don't think

on any theoretical basis at all. I don't think the

have a sound basis for depreciation on the actual wa-

and how. It is just the basis the Income Tax Dep-

Q. I suppose it varies in every case?

ers have applied it.

Q. I suppose it varies in every case?

ers have applied it.

Q. I suppose it varies in every case?

ers have applied it.

A. No, the Income Tax Department takes the depreciation over a certain length of time on the basis of their rates. Before the Income Tax and Business Profits' Tax came into force the rates of depreciation charged by these companies were a great deal lower than they are to-day.

Q. Don't get away from my question. I am on the period where the Income Tax Department is interested. During that period do you suggest the company does wrong in depreciating to the extent which the Income Tax Department allows ? A. I am not suggesting the company is doing wrong at all.

Q. You suggest it is over depreciation ?
A. I have already told you what my conclusion in that regard is based on, the company's own statement and the fact that they have continued to write off depreciation --

Q. Surely you are not saying that. Do you suggest that well-managed companies when they depreciate annually if the general market value of land, buildings and machinery goes up won't find their values increased?
A. Yes, and the values will go down. I venture to say if a figure was taken to-day the values would not be the same in relation to what they were.

Q. You venture to say; I want to know what you are prepared to testify to. I am going on to something else. I am asking you this. Do you mean to suggest that a company that depreciates wisely, reasonably and not excessively will not find itself with an increased value of its fixed assets if the general

tendency of the market has been an increase in the values of land, an increase in the values of buildings, and an increase in the values of machinery, or otherwise if the dollar purchasing value fell? A. Yes.

Q. Isn't that inevitable for that company? A. That is logical. I am not saying it is the inevitable result. I am answering your question it would increase in value of the general trend of values went up.

Q. Do you suggest that each year when the company sets aside an amount for depreciation it should investigate if land values generally have gone up, if building values generally have gone up, if machinery values have gone up, and therefore they have not as much depreciation, and if they have fallen the depreciation would be three or four times more; in other words, would they follow in depreciating the fluctuations of the general market conditions? Is that your contention? A. I am just a little troubled about the way you put your questions. I am trying to follow you, but I am just a word or two behind you.

Q. Well, the reporter will read the question.

--- The reporter read as follows:

"Do you suggest that each year when the company sets aside an amount for depreciation it should investigate if land values generally have gone up, if building values generally have gone up, if machinery values have gone up, and therefore they have not as much depreciation, and if

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AGAINST

they have fallen the depreciation would be three or four times more "--

MR. GEOFFRION: Well, I will frame it another way. Depreciation has nothing whatever to do with the enhancement in values; neither does wear and tear?

A. It happens very frequently --

THE COMMISSIONER: Pardon me, wear and tear in the plant? There is no wear and tear in the land?

A. No.

MR. GEOFFRION: There is little depreciation on the buildings.

THE COMMISSIONER: You spoke of land values. Land values would not come into that.

MR. GEOFFRION: No, I will strike out the word "land". There is considerable depreciation on machinery, but what I am concerned with is market fluctuations which affect the replacement value considerably of buildings or machinery -- we will forget land -- they are not supposed to be considered in deciding every year on the extent of depreciation?

A. No.

Q. Therefore, it would inevitably happen -- I suppose not inevitably, but frequently happen in a rising market on these values, or if you prefer in a falling market with the dollars purchasing power, that the company that depreciates will find itself to have, from one point of view, over depreciated? A. They may.

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Q. Is that the only consideration you are making here? Do you mean to say depreciations here were excessive irrespective of that consideration or on account of that consideration? A. They appear to be excessive, yes, and the company states they are excessive.

Q. The company's report takes that increase in values into consideration? A. Of course it does; it also takes that item into consideration.

Q. Are you prepared to say the amount that was set aside every year for depreciation, forgetting market fluctuations, and bearing in mind only wear and tear was excessive? A. I will just say they appear to be on the evidence that is before me.

Q. The evidence before you is what, this report? A. The statements that have been supplied to me by the company.

Q. This report or something else? A. This report and the appraisal, the insurance appraisal, and the charges for repairs and for depreciation.

Q. I ask you to forget the charges for repairs that were betterments. We don't know how much. Therefore, forget that. You will admit the two appraisals include increases due to market conditions? A. Or the decreases.

Q. Or the decreases; you will admit the decreases in 1936 do not approximate the increases from 1906 on? A. I don't know. I would fancy your conclusion maybe is right.

MR. McRUER: They do not run from 1906.

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CHICAGO

MR. GEOFFRION: I beg your pardon, the bulk of our plant was running from 1906. Therefore, as to the report it mixes together the element of market fluctuations that should be ignored and might lead to higher market value or higher depreciated value than the books would show on the depreciation basis ?

A. There is no distinction.

Q. Therefore, that argument does not lead to a conclusion. Now, as regards your other argument, namely the reference to betterments being charged to repairs,you cannot give us too much. Can you tell us by how much this year this company over depreciated ?

A. No, I cannot.

Q. That is why you charge the whole depreciation, $17,000,000.--

THE COMMISSIONER: What is that ?

BY MR. GEOFFRION: Charge the whole depreciation $17,000,000. A. The whole appreciation.

Q. Well, that is the same thing from another angle. Now, you are not prepared to say this $17,000,000. excess profits which you call on the assumption that the whole $17,000,000. is excessive depreciation or betterments -- no, pardon me, I will put it this way. You will admit your $17,000,000. increase includes the variations in market conditions? A.Yes.

Q. You don't know how much that represents ?

A. No.

Q. So I think this $17,000,000 might be put in three sections, the unknown element of market conditions, plus the unknown element for betterments charged to

MR. CHAIRMAN: I beg your pardon, the bulk of our plant was running from 1908. Therefore, as to the report it mixes together the element of market fluctuations that should be ignored and might lead to higher market value or higher capitalized value than the books would show on the depreciation basis ?

A. There is no distinction.

Q. Therefore, that argument does not lead to a [illegible]. Now, as between your plant [illegible], in the reference to betterments be dy charged to re- pairs, you cannot give us too much. Can you tell us how much this year this company ever depreciated ?

A. No, I cannot.

Q. That is why you charge the whole depreciation $17,000,000.--

THE COMMISSIONER: What is that ?

MR. CHAIRMAN: Change the whole depreciation $17,000,000. A. The whole supposition.

Q. Well, that is the same thing from another angle. Now, you are not prepared to say this $17,000,000. excess proof is which you will on the as- sumption that the whole $17,000,000. is excessive de- preciation or betterments -- no, pardon me, I will [illegible] it this way. You will admit your $17,000,000. [illegible] includes two [illegible] in market conditions? --Now don't know how much that [illegible] ?

A. [illegible]

Q. So I think this $17,000,000 might be put in three sections, the unknown element of market condi-

repairs plus the unknown element for excessive depreciation. You cannot say how much each amounts to ? A. I cannot.

Q. Of course, it is difficult. You take a short cut and charge everything to excessive depreciation or betterments and forget the element of market variations. Now, insofar as these market variations are you quite right in calling that as you do earned profits . Do you say if the buildings -- pardon me, I understand also that this increase in values of our profit taken on the basis of the insurable interest in 1936 plus the land values -- and the increase in land values since 1905 is considerable; there may be no depreciation on land but our values of 1906 include land ? A. Yes.

Q. Therefore they include land of 1906 values ? A. Yes.

Q. And therefore,-- no, 1936 values, I am sorry; 1936 values include land at 1936 values ? A. The appraisal , the insurance appraisal does not include land at all.

Q. No, but you valued the land ? A. Yes. The appraisal is 1920 values.

BY THE COMMISSIONER: Q. Did you value the land yourself ? A. No, no; the value of the land I take into this appraisal was the value set on it in 1920 by the Appraisal company.

BY MR. GEOFFRION: Q. Plus an addition for additional land ? A. Yes, since that time.

Q. Therefore any appreciation in land values is

repairs plus the unknown element for excessive depre-
ciation. The answer are how much more/or less it
is worth.

Q. Of course, it is difficult. You take a short
cut and charge everything to maintenance
or betterments
and forget the element of market variations. Now, in-
sofar as these market variations are you quite right
in calling that as you do earned profits . Do you
say if the buildings -- pardon me, I understand also
that this increase in values of our profit taken on
the basis of the insurable interest in 1930 plus the
land values -- and the increase in land values since
1930 is unrealized; there may be an appreciation
land but our values of 1930 include land ? A. Yes.

Q. Therefore they include land at 1930 values ?

A. Yes.

Q. And therefore,-- no, 1930 values, I am sorry;
1930 values include land at 1930 values ? A. The
appraisal , the insurance appraisal does not include
land at all.

Q. No, but you valued the land ? A. Yes.
The appraisal is 1930 values.

BY THE COMMISSIONER: Q. Did you value the land
yourself ? A. No, no; its value of the land I
take into this appraisal was the value set on it in
1930 by the appraisal company.

BY MR. CHANTLER: Q. Plus an addition for
additional land ? A. Yes, since that time.

something that comes in your $17,000,000? A. Yes.

Q. Therefore we have got a fourth item, appreciation of land values, fluctuation in market conditions about buildings and machinery, equipment charged as repairs, and over depreciation; you cannot say how much of each it is ? A. No.

Q. But you charge it all as over depreciation or excessive charges to operations for equipment ? A. You notice I have "etc." there ?

BY THE COMMISSIONER: Q. You have what ? A. Have "etc.".

BYMR. GEOFFRION: Q. I am interested in that etc. I am glad you brought me to it. I point out to you you omit completely increased land values, you omit completely fluctuations in market corditions in respect to buildings and machinery -- that is omitted in your statement, or is it there ? A. Would be there.

Q. It was omitted ? A. What do you mean omitted ?

Q. They are not mentioned in your statement ? A. Not specifically.

Q. But they are factors ? A. They may be factors.

Q. They may be or they are ? A. They may be.

Q. You are not prepared to say they are ? A. I don't know whether the buildings and the machinery are higher than they were in the 1920 appraisal or not.

Q. I am not speaking of 1920; I am going back to 1906 ? A. 1920 is the basis of this appraisal --

Q. You go back to 1906 in your $17,000,000. You don't know how much appraisal there was in 1906 ? A. No.

Q. Now, you mentioned repairs; you have admitted to me repairs charged to repair account properly comes out of profits ? A. Yes.

Q. Therefore repairs should not be there ? The word repairs is too much . Whatev r has been charged to repairs properly should not be considered here in the $17,000,000. ? A. No, but repairs is just a title of the account they have.

Q. Excessive charges to operations for equipment and repairs; now, what is your etc.? A. The item was referring to this land value that appears on the previous page.

Q. That is the land value you just dealt with ? A. Yes.

Q. Therefore we have got the market variations on land which have nothing to do with depreciation, your charges for equipment or repairs, the market variations on buildings which have nothing to do with depreciation or equipment or repairs, and the same thing for market variation on machinery plus a possible unknown quantity for equipment charged as repairs; that is all ? A. Yes.

Q. All right; that is all charged to us ? A. Yes.

Q. You cannot say how much of that is excessive and how much isn't ? A. No.

Q. Now, suppose we have that all wrong; suppose

we are wrong and the whole $17,000,000 is excessive depreciation, we have been over-cautious . The point is we should reverse our charge and add $17,000,000. to our profits ? A. I am not suggesting that.

Q. You say so. You say so. You do it, sir. Approximate profits earned, $45,000,000. include $17,000,000. You say you are not saying so? A. I am not suggesting you do it. In making up the total here on certain items --

MR.McRUER: My friend persists in attacking Mr. Howson, and he loses sight entirely of the purpose of this inquiry. We were governed and I certainly in my instructions to Mr. Howson, was governed by the terms of the Order-in-Council which directed us to determine how these companies had fared in the past over a period of years and under existing tariff conditions.

THE COMMISSIONER: Profits is distinctly mentioned in the Order in Council.

MR.McRUER: Profits and all these things. Now, it does not make a particle of difference as far as I am concerned in this inquiry whether they have got their profits by writing off excessive depreciation or some other way. They have them at the present time and that is the fact we are bringing out in the statements.

THE COMMISSIONER: Yes, but Mr. Geoffrion disputes, I think, that they have them at the present time.

MR McRUER: No, he does not dispute.

THE COMMISSIONER: He disputes this. The witness puts these profits at $45,952,000. What is your attitude on that ?

MR.McRUER: That the company --

THE COMMISSIONER: I am just getting at the true facts. That is the only thing I can get it from.

MR.McRUER: That the Company is $45,952,000. better off than it was when it started. Now, my friend is analyzing whether this has come from increases in land values or increases in market fluctuations in buildings and so on. It might be better for him to show us something of these figures he is talking about.

THE COMMISSIONER: Perhaps he intends to.

MR.McRUER: There is no suggestion of our putting it forward because we have not got them. We would like to have them, as to how it is built up, but we do get from their records they are $45,952,000. better off than when they started.

THE WITNESS: May I just add this that we did everything we possibly could to get that information from the company but the company was not able to give it to us.

MR. GEOFFRION: Iquite appreciate the necessity of reporting on our profits but your lordship is not supposed to report only on that.

THE COMMISSIONER: It would perhaps do good for you to get back to the starting point. The Order-in-Council calls for a full investigation and report

on costs, profits, wages, salaries, bonuses, tariff protection, investments, volume of production and all other matters.

MR. GEOFFRION: Investments is what I am really on. I want to know what is really invested in this company. The investor is entitled to appreciation due to market conditions in his investments.

MR.Mc RUER: Then he does not need to ask for tariff if he has got it in the past.

MR. GEOFFRION: We will have our field day later on.

MR.McRUER: We are going to have a good time.

MR. GEOFFRION: I would like to specialize here that the heading is inaccurate because it omits what I have just stated.

THE COMMISSIONER: What heading, Summary of operations ?

MR McRUER: I will suggest that any words Mr. Geoffrion feels ought to be in there to properly describe it, unless Mr. Howson says they should not be in, I am quite willing to have them introduced in it, because I do not want any heading in these statements that is misleading in any sense.

MR. GEOFFRION: I will put another question if I am allowed. You call this profits earned during the period ? A. I said approximate profits earned.

Q. Do you think the word earned applies to surplus due largely to improved or partly -- A.

MR.McRUER: No, no.

BY MR. GEOFFRION: Q. To avoid controversy I

will say partly, to improved values in market conditions resp_ecting land, buildings and machinery during thirty years. A. When the company gives effect to them I would say they have earned.

Q. They must give effect -- A. They gave effect to that in 1920 by setting up values on the books.

Q. They did not give effect to $17,000,000., they give effect to $12,000,000. and you call it inflation? A. I am just carrying this on for the next period.

Q. You call it inflation ? A. I am not dealing with that as inflation.

Q. You say so, you call it inflation elsewhere ? A. It is in relation to the earnings of the company.

Q. Inflation is inflation, isn't it, absolutely or not ? A. Mr. Geoffrion, as Mr. McRuer mentioned before, you must remember these statements were made up for this investigation and to give the Commissioner the information that we were instructed to get.

Q. The moment you take that attitude I have nothing to ask ? A. I am not dealing with this company from a financial standpoint at all.

Q. You are simply giving the figures you were asked to give ? A. No, not necessarily, not the figures I was asked to give.

MR.Mc_RUER: That we were instructed under the Order in Council to procure from the Company, and we certainly are not pretending from a banking standpoint to analyze this company's position. I am willing to admit that the company has been a marvelous success.

MR. GEOFFRION: Why go outside the question . I

simply say it isn't earned profit. Do you suggest that increase in value of buildings and machinery is earned profit ? A. The company gave effect to them in 1920 and treated them as earned profit in that respect by capitalizing them.

Q. Then, you treat the appreciation in value as earned profit ? A What is appreciation? When you buy securities and sell them at an advanced you take that into your income as profit , as part of your profit ?

Q. You consider if a company buys a piece of land and holds it thirty years and it trebles in value which happens, say it goes up from 10,000 to 100,000, that the 90 thousand is earned profit ? Is that earned profit ? If you say that I am satisfied. Now, what would you have said -- no -- A. Pardon ?

Q. Nothing at all. Let me try and shorten this, let me shorten this chapter and try and close it if I can. You rpoint is you are simply trying to prove what profits we made in the past; that is all? A. I am just trying to give the information, what is here.

Q. You are trying to give information as to what profits we made in the past ? A. Yes.

Q. Pure and simple, that is all ? A. The history of the company.

Q. From the point of view of profits you think you can calculate in profits increments in values of land, buildings and machinery ? A. What is that

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LOANED - RETURNED

last question ?

Q. From the point of view of profits you think you can calculate in profits increments in values of land, buildings, and machinery, due to market conditions ? A. I am not including them in profits in operations at all.

Q. You have included them on page 1 ? A. I am making a summary of the company --

Q. You call them earned profits ; you call them earned profits ? A. Yes.

Q. You include them in earned profits ? A. Yes.

Q. Why not say yes right off ? Of course, you also claim you are not able to say how much you think our depreciation apart from that was excessive ; you cannot say by how much ? A. No.

Q. All right; now, Mr. Howson, I will take you into another chapter. Would you please look at page 11 -- not so much page 11, it is page 4 -- will your lordship give me just one minute for my last point, or nearly my last point. It is page 10 or page 16, how you call it.

MR.McRUER: Let us refer to it as 16.

THE COMMISSIONER: What is the heading ?

MR. GEOFFRION: It is 10 or 4.

THE COMMISSIONER: 10 is a summary of operations.

MR. GEOFFRION: Yes, summary of operations.

THE COMMISSIONER: You were just on that page -- no, that is not the page you were on.

MR. GEOFFRION: 10 on one book and 4 on the other.

A. The single sheet ?

Q. From the point of view of profits you think land, buildings, and machinery, due to market conditions ? A. I am not including them in profits in operations at all.

Q. You have included them on page 1 ? A. I am

Q. You call them earned profits ; you call them earned profits ?

A. Yes.

Q. You include them in earned profits ? A. Yes.

Q. Why not say Yes right off ? Of course, you also claim you are not able to say how much you think

cannot say by how much ?

A. No.

Q. All right; now, Mr. Howson, I will take you into another chapter. Would you please look at page 11 -- not so much page 11, it is page 4 -- will your testimony my last point. It is page 10 or page 10, how

MR. MONTAGUE: Let us refer to it as 16.

THE COMMISSIONER: What is the heading ?

MR. CONSTANTINE: It is 10 or 4.

THE COMMISSIONER: 10 is a summary of operations.

MR. CONSTANTINE: Yes, summary of operations.

THE COMMISSIONER: You were just on that page --

MR. CONSTANTINE: 10 on one book and 4 on the other

Q. Yes? A. From 1927 to 1936 ?

Q. Exactly; look at it there. You give us percentages, and I am starting at it from another angle. I am starting from the consumers' point of view. I am trying to find out the percentage of our profits out of the gross sales price putting the sale price at 100 per cent. You say the net profit is 8.68 there; is that right ? A. Yes.

THE COMMISSIONER: Profit on sales ?

MR.MCGEOFFRION: On sales, that is the percentage of the gross sales. Now, these figures do not include -- this, of course, covers ten years ? A. Yes.

Q. This does not include bond interest ?

A. No, the bond interest is put down below.

Q. Of course, it does not include preferred dividends ? A. No.

MR.McRUER: What do you mean by include ?

MR. GEOFFRION: If that was deducted before the 8.68 the 8.68 would be less. In other words, you have ascertained that 8.68 on 100 per cent before treating bond interest and preferred stock dividends as profits ? A. The statement speaks for itself. It shows exactly what it is.

THE COMMISSIONER: It is on sales , it is the profit on sales ? A Yes, on trading operations.

MR.GEOFFRION: Yes, but I am trying to get something else out of it. Now, I have worked it out but only for one year.

Page 12860 follows.

.Yes? A. From 1927 to 1929 ?

. Exactly; look at it there. You give us ex-
centages, and I am starting at it from another angle
I am starting from the consumers' point of view. I
am trying to find out the percentage of our profits
out of the gross sales price putting the sale price
at 100 per cent. You say the net profit is 8.65

Q. Is that right ? A. Yes.

THE COMMISSIONER: Profit on sales ?

MR.MONTGOMERY: On sales, that is the percentage
of the gross sales. Now, these figures do not in-
clude -- this, of course, covers ten years ? A. Ye

Q. This does not include bond interest ?

A. No, the bond interest is put down below.

Q. Of course, it does not include preferred di-
vidend ? A. No.

MR.MONTGOMERY: What do you mean by including ?

MR. BRYDIE: If that was deducted before the
A.We think should be less. In other words you
have ascertained that 8.65 on 100 per cent befo
treating bond interest and preferred stock dividends
on profits ? A. The statement speaks for itself.
It shows exactly what it is.

THE COMMISSIONER: It is on sales, it is the
profit on sales ? A. Yes, on trading
operations.

MR.MONTGOMERY: Yes, but I am trying to get some
thing else out of it. Now, I have worked it out but
only for one year.

I would like you to check it and make sure what the common stock gets on sales. I am told that this is taken from your figures. A. How do you work that one out?

Q. I analyze the percentage for labour, materials manufacturing expenses, selling and administration, bond interest, preferred dividends and income tax, and return on common stock. A. This is just for one year.

Q. Yes, for 1936. I did not have time to do it for all the years. It is taken from page 15 of your statement, I am told.

THE COMMISSIONER: You are dealing with the year 1936?

MR. GEOFFRION: Yes, for the year ending March 31, 1936, but we can repeat the same thing for any year we like, but I am concerned just now with 1936. Are the figures I show you correct according to your statement? A. Yes.

MR. GEOFFRION: This will be filed as an Exhibit, my lord.

THE COMMISSIONER: That will be Exhibit 951.

EXHIBIT 951: Analysis of sales dollar, Dominion Textile Company, for 1936.

BY MR. GEOFFRION: Q. Referring to Exhibit 951, the result of this is that out of $100 paid into the company for cotton, we will say, the company gets for all its common stock $2.50? A. On the sales, $2.50 on $100.

Q. Exactly. In other words, if the company

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I would like you to check it and make sure who's the common stock vote on maples. I am told that this is taken from your figures. A. How do you work that one out?

Q. I analyze the percentage for labour, material, carrying overhead, selling and administration, bond interest, preferred dividends and income tax, and return on common stock. A. This is just for one year.

Q. Yes, for 1936. I did not have time to do it for all the years. It is taken from page 15 of your statement, I am told.

THE COMMISSIONER: You are dealing with the

MR. CLEMENTS: Yes, for the year ending March 31, 1936, but we can insert the same thing for any year we like, but I am concerned just now with 1936. Are the figures I show you correct according to your ANSWER?

MR. DENNISTOUN: This will be filed as an exhibit, my Lord.

THE COMMISSIONER: That will be exhibit 93I.

EXHIBIT 93I: Analysis of maples dollar, Dominion Textile Company, for 1936.

BY MR. CLEMENTS: Q. Referring to Exhibit 93I, the result of this is that out of $100 paid into the company for cotton, we will say, the company pays for all its common stock $8.50? A. On the value, Mr. ... $100.

Howson was able to measure its price so as to get nothing at all on its common stock, I suppose if that was done the price to the retailer or middleman would fall by 2½ per cent. A. I do not know that I can give an offhand answer to that question.

Q. You will admit, I suppose, that it is impossible for a company to set up its list of prices so that it will realize exactly zero profit or zero loss during the year, that in other words you can only figure your profit in advance approximately. A. Surely they cannot anticipate what they are going to make or lose at the end of the year.

Q. Then you are not prepared to say that if the company attained this ideal position which is Mr. McRuer's idea, that it would have no profit on common stock at all, that the middleman would be the gainer by $2.50 on $100 ?

MR. McRUER: My suggestion goes a lot deeper than that.

MR. GEOFFRION: I know, but that is one of your suggestions. Your suggestion is that we should give back money.

BY MR. GEOFFRION: Q. You have analyzed what happens to $100 worth of sales? A. Yes.

Q. And what remains afterwards for the common stock is $2.57.

THE COMMISSIONER: Out of $100.

MR. GEOFFRION: Yes.

BY MR. GEOFFRION: Q. So if we were willing to do business with nothing at all for the common stock

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we would sell for $97.43 what we are now selling for $100? A. $97.43.

Q. And the question would arise whether that saving of $2.57 to the middleman would be passed on to the consumer, or how much of it. A. I cannot answer that question.

Q. You cannot answer that question? Very well then. In this analysis, Exhibit 951, direct labour gets $25.31 ? A. Yes.

Q. Materials, $47.71 ? A. Yes.

Q. Manufacturing expenses, $17.95 ? A. Yes.

Q. Selling and administration, $3.22 ? A. Yes.

Q. Bond interest, preferred dividends and income tax, the income tax being the government's partnership in the venture, $3.24 ? A. Yes.

Q. And return on common stock, $2.57 ? A. Yes.

MR. McRUER: You might let the government take a bigger interest in the partnership.

BY THE COMMISSIONER: Q. Where do these figures come from? A. They are on the detailed statement. They come from the questionnaire.

BY MR. GEOFFRION: Q. Now, Mr. Howson, this morning you filed an exhibit which subsequently was withdrawn and will be replaced.

THE COMMISSIONER: That will be Exhibit 948 ?

MR. GEOFFRION: Yes, but it is not in yet, and I will reserve my cross-examination on it until I have seen it. Then Your Lordship will remember that Exhibit 949 is where that $3,375,000 comes in. There was no increase in dividends in the second period.

3. And the question would arise whether that
reading of $4,.37 to the middleman would be passed on
to the consumer, or how much of it. A. I cannot
answer that question.

Q. You cannot answer that question? Very well
then. The milk industry, briefly now, there are
gets $300,82 ? A. Yes.

3. Materials, $47.71 ? A. Yes.

4. Manufacturing expenses, $17.93 ? A. Yes.

5. Selling and administration, $3.88 ? A. Yes.

6. Bond interest, preferred dividends and
income tax, the income tax being the government's
participation in the venture, $2.24 ? A. Yes.

7. And return on common stock, $2.37 ? A. Yes.

MR. MCGUIR: You might let the government take
a bigger interest in the partnership.

BY THE CHAIRMAN: Q. Where do those figures
come from? A. They are on the financial
statement. They come from the questionnaire.

BY MR. CHAIRMAN: Q. Now, Mr. Howes, this
writing-pen and will be replaced.

A. Yes, but it is not in yet, and I
will reserve my cross-examination on it until I have
seen it. Then Your Lordship will remember that
exhibit 24A is where that $3,375,000 comes in.

I understand that the Exhibit respecting inventory reserves is going to be corrected.

MR. McRUER: Yes, I hope to get to the bottom of it soon. I find that it is not quite as explained by Mr. Gordon yesterday, so we have to go back over it again because what he referred to as the market price of raw cotton being the basis of their raw cotton inventory is not correct. He was in error on that. It goes as low as 11 cents a pound.

MR. GEOFFRION: All I am concerned about is that that Exhibit will be put in so that I can cross-examine on it.

MR. McRUER: Yes, when we can get it worked out.

THE COMMISSIONER: There are two Exhibits to come in, one Exhibit is forthcoming from Mr. Gordon. When you examine Mr. Howson again, Mr. Geoffrion, you may examine him on anything that may occur in the meantime.

MR. GEOFFRION: Yes, my lord. I think I am through now.

BY MR. McRUER: Q. Mr. Howson, how much is the bonded indebtedness of the Dominion Textile Company?
A. At the last date?

Q. Yes. A. $4,457,000.

Q. How much is the preferred stock issue?
A. $1,940,600.

Q. Or a total of ? A. $6,397,600.

Q. On this original $500,000 that was invested, according to Exhibit 946, there has been paid in dividends $14,836,000 ? A. $14,837,000.

10

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Q. If that $500,000 has borne interest -- we will be generous and say at the rate of 20 per cent per annum, how much would have been paid?

THE COMMISSIONER: Would you compound it for them?

MR. McRUER: No, I will take simple interest.

THE WITNESS: Over the same period?

THE COMMISSIONER: Thirty years ?

MR. McRUER: Yes.

THE COMMISSIONER: It would be 600 per cent.

BY MR. McRUER: Q. At 20 per cent it would be-- A. $3,000,000.

THE COMMISSIONER: In each year.

BY MR. McRUER: Q. So, if this company had not been, I might say, so generous with the original common stockholders, and had paid on the basis of 20 per cent instead of 100 or 150 per cent, or whatever they did, they would have had in surplus account $11,800,000 at this period if they had paid out dividends at the rate of 20 per cent. A. That would be the difference between the $3,000,000 and the $14,000,000 paid.

Q. Yes, $11,000,000. Now I come to this statement which my friend Mr. Geoffrion has filed, Exhibit 951, A. Is that the last one?

Q. Yes, showing in percentages where the consumer's dollar goes in this company. On my assumption that they had paid out dividends at the rate of 20 per cent instead of at the rate they did there would have been $11,000,000 plus in the treasury

and they could have redeemed all the bonds.

THE COMMISSIONER: Are you quite sure of that figure. You say if they had paid dividends. Do you mean at the rate of 20 per cent per year, 20 per cent per annum on the $500,000?

THE WITNESS: $100,000 a year for thirty years, $3,000,000 approximately.

BY MR. McRUER: Q. There would have been over $11,000,000 in the treasury. They could have redeemed all the bonds and all the preferred stock and have had about $5,000,000 still left, and they would not have needed to call on the public to subscribe the five or six million dollars that was subscribed in 1927 and 1928. They would have had plenty of working capital without issuing any further stock.

MR. BALLANTYNE: Is that seriously suggested?

MR. McRUER: I am dealing with this as a tariff matter, and I am quite serious about it. I want to see what the consumers of Canada have paid in the past, and now because they have paid, they are asked to pay more.

MR. GEOFFRION: Parliament makes the law, and if parliament was wrong, that is another matter.

MR. McRUER: We are trying to find out whether they were or not.

MR. GEOFFRION: They are never wrong, I understand.

MR. McRUER: Well, they have asked us to find out.

ROST. BRYDIS

TORONTO CANADA

BY MR. McRUER: Q. Then referring to this Exhibit 951, Mr. Howson, this item of $2.24 of this $100 could come out altogether on that basis?

A. Yes, with the exception of the income tax, which is included in it.

Q. Yes, but that is not set up here.

MR. GEOFFRION: The income tax would be much bigger then.

MR. McRUER: I would like to have seen what share the government got in income tax out of the sales dollar.

BY MR. GEOFFRION: Q. You have got the income tax in your statement? A. Yes.

BY MR. McRUER: Q. The costs of interest-bearing securities being reduced, that would reduce the general costs of operation?

MR. GEOFFRION: In other words, if we distribute our profits we are doing wrong.

MR. McRUER: No, if you distribute them at the rate of 150 per cent per annum I think it is time we considered whether you should have the tariff protection that enables you to do that.

MR. GEOFFRION: If we had distributed them at the rate the law allows us --

MR. McRUER: It would have been a lot easier for us to make up these accounts.

BY MR. McRUER: Q. My friend asked you, Mr. Howson, in reference to the share the general public had in this investment, and he pointed out that up until 1923 the original stock issue was 100 per cent.

BY Mr. Gould, K.C.: Q. Then referring to this exhibit 98, Mr. Dawson, that item of $3.84 of this $100 could come out altogether, can it be?

A. Yes, with the exception of the income tax, which is included in it.

Q. Yes, but that is not set up here.

Mr. Chevrier: The income tax would be much higher then.

Mr. Gould, K.C.: I would like to have seen what the government got in income tax out of the sales dollar.

BY Mr. Gould, K.C.: Q. You have not the income tax in your statement? A. Yes.

BY Mr. Gould, K.C.: Q. The costs of interest-bearing securities being reduced, that would reduce the general costs of operation?

Mr. Chevrier: In other words, if we distribute

Mr. McFarlane: No, if you distribute them at the rate of 150 per cent per annum I think it is time we considered whether you should have the tariff protection that enables you to do that.

Mr. Chevrier: If we distributed them at the rate the law allows us --

Mr. Ashton, K.C.: It would have been a lot easier for us to make us three companies.

BY Mr. Gould, K.C.: Q. My friend asked you, Mr. Dawson, in reference to the costs to the general public

THE COMMISSIONER: The second issue was in 1923.

MR. McRUER: Yes, that is right. Then there was an issue of $2,500,000, and those who purchased that got five-eighteenths interest, I think it was.

THE WITNESS: No, they got one-third.

BY MR. McRUER: Q. Oh yes, I beg pardon. A. They got 25,000 out of a total of 75,000 shares.

Q. That is right. That is on the first issue.

THE COMMISSIONER: That is in 1923.

BY MR. McRUER: Q. Yes, so for putting up 25,000, they had one-third, and the original holders had two-thirds. Then on the next issue the subscribers put up $3,375,000 ? A. yes.

Q. And they got three-eighteenths interest? A. Yes.

THE COMMISSIONER: One-sixth.

MR. McRUER: Yes, about 6-2/3 per cent, I think.

THE COMMISSIONER: The returns to them were 6-2/3 per cent at the highest, and 5-1/3 per cent at the lowest.

MR. McRUER: Yes.

BY MR. McRUER: Q. Now, Mr. Howson, there are one or two matters that my friend emphasized that I want to clear up a bit. The dividends in 1934 on common stock were reduced by 20 per cent. In 1935 what portion of this was restored to the common stockholders? A. The dividend was brought back. The whole decrease was restored.

Q. The whole decrease was restored? A. Yes.

Q. And since then they have been paying at the

an issue of $6,500,000, and those who purchased that
got five-eighteenths interest, I think it was.

THE WITNESS: No, they got one-third.

BY MR. ROBERTSON: Q. Oh yes, I beg pardon.
$5,000,000 out of a total of $15,000,000 shares.

A. That is on the first issue.

THE COMMISSIONER: That is in 1928.

BY MR. ROBERTSON: Q. Yes, so for putting up
$5,000, they had one-third, and the original holders
had two-thirds. Then on the next issue the sub-
scribers put up $6,875,000 ? A. Yes.

Q. ...

A. ...

MR. ROBERTSON: Yes, about 6-1/2 per cent, I think.

THE COMMISSIONER: The returns to them were
6-1/2 per cent at the highest, and 5-1/2 per cent at
the lowest.

BY MR. ...

Q. Now, Mr. Dunton, there are
one or two matters that my friend emphasized that I
want to clear up a bit. The dividends in 1929 on

increased rate? A. At the restored rate.

Q. So when my friend emphasized the fact that wages had been decreased by 10 per cent in 1934 while the common stock dividend was decreased by 20 per cent, in 1935 the wages were increased by 4½ per cent, but the whole decrease on the common stock dividend was restored. A. Yes.

Q. Now your statements as to profits and so on have been made up from the company's returns to you? A. Yes.

Q. But they do not of course take into account the question that we were discussing with Mr. Gordon yesterday, and that is the secret inventory reserves? A. No. There was no provision for that at all, because we had no information on it at the time the statements were prepared.

Q. At the time the statements were prepared, and of course it would be a very laborious job to recast them now that this is coming to light? A. Well, they would all have to be recast.

Q. But we can probably deal with it in some other way. Now in reference to the $17,000,000 item for depreciation, or excessive depreciation, or whatever you may call it--

THE COMMISSIONER: That goes into other things besides depreciation -- repairs, etc. What page is that again?

MR. McRUER: Page 7. It is over-depreciation and excessive charges to operations for equipment, repairs, etc.

BY MR. McRUER: Q. I am interested particularly in knowing just how the company stands irrespective of what may be in its books, and according to their insurance appraisal, it shows that the plant is worth $17,000,000 more than is shown in the records. That is correct? A. Yes.

Q. So that when that is made up by writing off excessive depreciation, repairs or betterments out or profits, and no matter how it may be, still the company has got it; or whether it is an increase in value of land and buildings the company has it according to the insurance appraisal? A. Yes.

THE COMMISSIONER: Does the insurance appraisal cover land? You mentioned land.

MR. McRUER: No, but Mr. Howson has taken it into the $17,000,000 item.

THE COMMISSIONER: The land is valued as of 1920.

MR. GEOFFRION: Plus additions.

THE COMMISSIONER: And land bought since.

MR. McRUER: Now I ask my friends, if there is anything unfair --

MR. GEOFFRION: If you are asking me now, that is argument.

MR. McRUER: I am asking you now so that it is not left to argument. I ask my friends, if there is anything unfair in taking this $17,000,000 as the value over and above the book value, that they will submit proper records that will show wherein it is unfair, because I think it is much too low,

and I would like to have the exact figures from the company's own records showing how they appraise their buildings themselves.

MR. GEOFFRION: $17,000,000 minus $12,000,000. That is $5,000,000 more.

THE COMMISSIONER: The figure should have been some $30,000,000.

MR. GEOFFRION: It is $17,000,000 plus, minus the $12,000,000.

MR. McRUER: The $12,000,000 is shown in their books; there is no doubt about that, but I mean after deducting the $7,500,000 for the inflation and the other two items for good will and so on, this appraisal shows it to be $17,000,000 more than the net figure.

MR. GEOFFRION: I never challenged that.

MR. McRUER: What I am saying is that if there is anything unfair about that, I invite you to produce the company's appraisal of the plant and buildings as of 1936 which will give us exactly how they value their own plant and buildings.

MR. GEOFFRION: My friend can see that, and the higher he puts my values, the better I like it.

MR. McRUER: You and I are working hard together.

MR. GEOFFRION: You can make it $100,000,000 if you like.

MR. McRUER: I just want to put it on record that I ask my friends if they will produce it. I have asked Mr. Shepherd to get it, that is any statements which the company issued as to the value

and I would like to have the exact figures from the company's own records showing how they appraise their buildings themselves.

MR. CROSSMAN: $17,000,000 minus $12,000,000. That is $5,000,000 more.

MR. CROSSMAN: The figure should have been some $30,000,000.

MR. CROSSMAN: It is $17,000,000 plus, minus the $12,000,000.

MR. MORGAN: The $12,000,000 is shown in the books; there is no doubt about that, but I mean after taxation the $7,300,000 for the inflation and the other two items for good will and so on, this appraisal shows it to be $17,000,000 more than the net il-

MR. [illegible]

MR. MORGAN: What I am saying is that if there is anything murky about that, I invite you to produce the company's appraisal of the plant and buildings as of 1956 which will give us exactly how they value their own plant and buildings.

MR. CROSSMAN: My friend can see that, and the higher he puts my values, the better I like it.

MR. MORGAN: You and I are working hand together.

MR. CROSSMAN: You can make it $30,000,000 if you like.

MR. MORGAN: I just want to put it on record that I ask my friends if they will produce it. I have asked Mr. Shepherd to get it. that is my

of its properties in connection with the bond issue in 1935.

MR. GEOFFRION: My friend can sent his accountants, and he knows they are welcome to get all that information.

MR. McRUER: We have got most freely, I will say that to my friend and his clients, information. They have worked hard to comply with every request that has been made.

MR. GEOFFRION: If my friend wants that, he will get it there. I have not got it here.

-- The Commission adjourned for a short recess.

On resuming.

BY MR. McRUER: Q. My friend has made several references, Mr. Howson, to the form of your statements and the basis of your statements, and so on. When you commenced your investigations you were furnished with a copy of the order in council governing this Commission, were you not? A. Yes.

Q. And in the preparation of your statements did you have in mind trying to carry out the directions of the order in council? A. That was the purpose in making up the statements in the way they have been made up, and in dealing with them I dealt with them in relation to the requirements of the order in council.

Q. You are not dealing with these matters as to whether it was a wise thing for them to do this, that

tents, and he knows they are going to get all that
[illegible].

MR. [illegible]: He does not want freely. I will say
that to my friend and his clients, in connection.
They have worked hard to comply with every request
that has been made.

MR. [illegible]: If my friend wants that, he will
get it there. I have not it here.

-- The Commission adjourned for a short recess.

[illegible]

Q. My friend has made several references, Mr. Dawson, to the form of your statements and the terms of your statement, am no on. Have you answered your interrogations Yes, were examined with a copy of the order in council covering this Commission, were you not? A. Yes.

Q. And in the preparation of your statement did you have in mind trying to carry out the directions of the order in council? A. That was the purpose in making up the statement in the way they have been made up, and in dealing with them I [illegible] when in relation to the requirements of the order in council.

A. [illegible] with those matters as I
[illegible] to do this, in

or the other thing ? A. No, I am not discussing the policy of the company at all.

Q. You were trying to get down as a record the material that will furnish the information that is required by the order in council, as nearly as you could? A. Yes.

Q. Just before we leave this $17,000,000 item, Mr. Howson, is there anything that I have not covered about that? There was something that occurred to me which I discussed with you, but which I have forgotten at the moment. A. Well, not that I know of, except I just want to make clear that the $17,000,000 item as described here is in relation to the requirements of the order in council and in general relation to the scheme of setting up the information.

Q. Yes. Whether it is built up out of depreciation or an increase in land values, if any, or whatever it may be, it is essentially, I should think, under the following words of the order in council:

"He (the Minister) is further of the opinion that industry generally and especially an industry which has had for years the benefit of the protection afforded by the customs tariff, should recognize its responsibility to carry on operations with due regard to its obligations to employees and to the public and not to arbitrarily shut down its plants.

The Minister further observes that in order to determine the responsibility of employers and

or the other thing? A. No, I can not

is required by the order in council, as nearly as

you could? A. Yes.

Q. Just before we leave this $17,000,000 item,

Mr. Hyson, is there anything that I have not

covered about that? There was something that

occurred to me when I discussed with you, but

which I have forgotten at the moment. A. Well,

not that I know of, except I just want to make sure

that the $17,000,000 item as described here is in

relation to the requirements of the order in council

and in general relation to the scheme of setting up

the information.

Q. Yes. Whether it is built up out of acre-

olation or an increase in land values, if any, or

whatever it may be, it is essential, I should think,

The following words of the order in council:

"He (the minister) is further of the opinion

That industry presently and especially on

industry which has not for years had benefit

of the protection afforded by the coast was that

should recognize its responsibility to carry o

to enable appropriate action to be taken, not only with regard to safeguarding the interests of employees and of the public, but also the industry itself, it is essential for the Government to be fully advised with respect to all matters surrounding the operations and conduct of the industries immediately concerned and inter-related and allied industries;

That in this connection it is essential that full and complete information be available to the Government covering a period of years with respect to costs, profits, wages, salaries and bonuses, tariff protection, investment, volume of production and all other matters and things which together with information already available to the Government will enable sound conclusions to be reached regarding the position of this and other branches of the textile industry,"

and so on.

Q. Now as to the portion of this $17,000,000 that represents over-depreciation, as my friend, Mr. Geoffrion pointed out, that could really be counted as an additional annual profit over and above the profits that we have dealt with? A. Yes.

Q. And in addition to that such portion as represents increasing land values, and so on, is a profit that the company has made up to date although it is not out of manufacturing operations.

A. It is not a profit on operations, but it is an enhanced value of the assets they hold. It would not

be taken as an item for distribution unless it was realized.

Q. But if the company sold out and wound up, it would nevertheless be a profit that was there for distribution to the shareholders? A. Just the same as a profit from the sale of any of their investments over and above the cost price.

Q. My friend put in a statement showing the percentage of earnings on common stockholders equity, with the $17,000,000 included as capital. I think it was Exhibit 950.

THE COMMISSIONER: Exhibit 950 is a statement based on certain assumptions that Mr. Geoffrion made.

BY MR. McRUER: Q. This is one that dealt with the year 1936, in which the earning on the common shareholders equity was shown to be 12 per cent, and Mr. Geoffrion puts in this element, adding back $17,000,000 to the common shareholders equity, and shows the common shareholders equity as $23,214,000, and then he treats that as earned profit in the business, as an investment of common shareholders in the business. That is the effect of the statement? A. Yes, the common shareholders equity.

Q. Then he relates the earning to that capital investment in order to get the 3.1 per cent? A. Yes.

Q. And if we treat it that way, the net effect of this would be to say that in the past we have been able to earn $23,214,190 more on our investment than we have drawn out in dividends.

be taken as an item for distribution unless it was realized.

It would nevertheless be a profit that was there

the stockholders to the common equity. A. Just

the same as a profit from the sale of any of their

investments over and above the cost price.

Q. My friend put in a statement showing the

percentage of earnings on common stockholders equity,

with the $17,000,000 included as capital. I think

it was Exhibit 930.

THE CHAIRMAN: Exhibit 930 is a statement

based on certain assumptions the hon. Gentleman made.

BY MR. MCCUAIG: Q. This is one that dealt with

the year 1926, in which the earning on the common

stockholders equity was shown to be 14 per cent, and

Mr. Gooderham puts in this element, adding back

$17,000,000 to the common shareholders equity, and

shows the common shareholders equity as $64,814,000,

and then he treats that as earned profit in the

business, as an investment of common shareholders

in the business. That is the effect of the state-

ment? A. Yes, the common shareholders

profit.

Q. Then he relates the earning to the capital

investment in order to get the 5.1 per cent? A. Yes

Q. And if we treat it that way, the next effect

MR. GEOFFRION: That includes the amount put in by the shareholders.

MR. McRUER: I will deal with the $17,265,000.

BY MR. McRUER: Q. He puts it in this way: To add that back in that way, we have earned in profit $17,265,000 more than we have drawn out in dividends, and therefore we ask that we should earn a return on that for the future. A. That would be the effect of it, that the $17,000,000 is made up of earned profits from operations.

THE COMMISSIONER: And you do not know what that extent is.

THE WITNESS: No, sir.

MR. McRUER: It is adding back into the capital a profit they have made either on operations or otherwise, and then saying: Now we want a protective tariff to assure us that we are going to get not only the profit we have had in the past but that we are going to get dividends on the profits we have had in the past. Does my friend feel that you should not only build up $17,000,000 profits, but now you ask protection to make sure that you earn dividends on that?

MR. GEOFFRION: I want it. I could have put it elsewhere and earned money on it. The past law may have been unwise, but it is my property now. That is the issue between us.

MR. McRUER: That is the effect, at any rate. My friend emphasized that there was no change in the tariff between 1905 and 1906.

MR. CHAIRMAN: That includes the amount put

in by the Commission.

MR. MORRIS: I will deal with the $17,965,000.

BY MR. MORRIS: Q. Do you put it in this way:

To add that back in that way, we have earned in

profit $17,965,000 more than we have drawn out in

dividends, and therefore we ask that we should

earn a return on that for the future. A. That

would be the effect of it, that the $17,000,000

is made up of earned profits from operations.

THE CHAIRMAN: And you do not know what the

extent is.

THE WITNESS: No, sir.

MR. MORRIS: It is adding back into the profits

a profit they have made either on operations or

otherwise, and then saying: Now we want a protec-

tive tariff to assure us that we are going to get

not only the profit we have had in the past but

that we are going to get dividends on the profits

we have had in the past. Does my friend feel

that you should not only build up $17,000,000

profits, but now you ask protection to make sure

that you earn dividends on that?

MR. CHAIRMAN: I want it. I could have put

clearware and earned money on it. The past law

may have been unwise, but it is my property now.

That is the issue between us.

MR. MORRIS: That is the effect, at any rate,

to extend somewhat that there was no change in

MR. GEOFFRION: I do not guarantee it, but I think so.

MR. McRUER: Just between 1905 and 1906 there was a change --

MR. GEOFFRION: Which way, up or down?

MR. McRUER: I do not know, but at any rate there was a change in the management.

MR. BALLANTYNE: There was a change in the British preference. It was reduced in 1907.

BY MR. McRUER: Q. Then with the benefit of reduced tariff, by the change in the management of the company, it made a 23 per cent profit on the first year, and what was it the second year? A. 55 per cent.

Q. 55 per cent profit on the next year, and at any rate, Mr. Howson, your observation is that management had apparently quite a bit to do with it. A. It would appear so.

Q. Now in respect to your statement in regard to depreciation and excessive depreciation, when you use the words "excessive depreciation" you had no reference whatever to the income tax or the income tax law. A. Not at all.

Q. Your reference was to depreciation that any very conservative company -- I do not use the word politically -- might desire to take in the management of its business. A. Arbitrarily, you mean?

Q. Yes. A. No.

Q. What you show for the purposes of this

Mr. BRYDON: I do not presume it, but I think so.

was a change --

Mr. CHRISTISON: Shall we, up or down?

Mr. BRYDON: I do not know, but at any rate there was a change in the management.

Mr. CHRISTISON: There was a change in the British preference. It was reduced in 1907.

BY Mr. BRYDON: Q. Then with the benefit of hindsight, by the change in the management of the company, it made a 55 per cent profit on the first year, and now I was it the second year?

A. 55 per cent.

Q. 55 per cent profit on the next year, and at any rate, Mr. Bowen, your observation is that management had apparently quite a bit to do with it.

A. It would appear so.

Q. Now in respect to your statement in regard to depreciation and excessive depreciation, when you use the words "excessive depreciation" you had no reference whatever to the income tax or the Income Tax.

A. Not at all.

Q. Your reference was to depreciation [illegible] management or its business.

A. Principally,

inquiry, which is essentially a tariff inquiry, it was excessive in respect to the needs of the company as shown by the records? A. Yes, for ordinary wear and tear.

Q. Yes, that after all it has turned out to be profit and not depreciation? A. Yes, to some extent.

MR. McRUER: Now if my friend can assist us in any way that will show what portion is an increase in land values and what portion is depreciation, we should like to have it.

THE COMMISSIONER: The whole thing is called excessive. The whole $17,000,000 is worded there as excessive.

MR. GEOFFRION: On cross-examination it appears that something is excessive, and you cannot say how much. The records are open for us.

THE COMMISSIONER: It says "Approximate surplus values in plant provided by over depreciation."

THE WITNESS: And "and excessive charges to operations for equipment, repairs, etc."

BY MR. McRUER: Q. Yes. And by the word "excessive" I take it that you mean charges to operations that were in excess of the ordinary repairs. A. Yes, and which were charged to the repairs and equipment account.

Q. Which were charged to the repairs and equipment account, and the over depreciation was the depreciation that was more than has turned out to be necessary in order to keep the plant value up to

inquiry, which is essentially a tariff inquiry, it was excessive in respect to the needs of the company, as shown by the record?

A. Yes, for ordinary wear and tear.

Q. Yes, that after all it has turned out to be profit and not depreciation?

A. Yes, to some extent.

MR. MCKEEN: Now if my friend can assist us in any way that will show what portion is an increase in land values and what portion is depreciation, we should like to have it.

THE COMMISSIONER: The whole thing is called excessive. The whole $17,000,000 is worded the same excessive.

MR. CHRISTIE: On cross-examination it appears that something is excessive, and you cannot say how much. The records are open for us.

THE COMMISSIONER: It says "appropriate to supply values in plant provided by over depreciation."

THE WITNESS: And "and excessive charges to operations for equipment, repairs, etc."

BY MR. MCKEEN: Q. Yes. And by the word "excessive" I take it that you mean charges to operations that were in excess of the ordinary requirements.

A. Yes, and which were charged to the repairs and

Q. Which were charged to the repairs and equipment account, and the over depreciation was the

par at all times? A. Yes.

Q. All right, I think that is all.

BY MR. GEOFFRION: Q. Coming back to the same old question, my learned friend asked you what would happen if a 20 per cent dividend had been paid on the $500,000. Now suppose a 20 per cent dividend was assured on the $500,000, how much per annum relation would it bear to the $3,375,000?

MR. McRUER: You would not have needed new capital. You would have had plenty of capital.

BY MR. GEOFFRION: Q. Suppose the dividend was cut down to 20 per cent; how much would the $3,375,000 subscribers of 1929 have as dividends, on the same basis, of course? A. 20 per cent on $6,375,000.

Q. No, that is the average. What is the dividend If you give 20 per cent on the shares representing the $500,000 you give 20 per cent on ten-eighteenths of the company, and therefore the $3,375,000 received three-eighteenths, which is $30,000. My learned friend wants you to limit yourself to 20 per cent annual dividend, namely, $100,000 on what represents this $500,000. Therefore that means ten-eighteenths. That means $100,000 for ten-eighteenths, and the other $3,375,000 would get $30,000 a year. Is that right? A. They would get their proportion whatever it is.

BY MR. McRUER: Q. But, Mr. Howson, if they had paid at the rate of a 20 per cent dividend, there would have been ample funds left in the company, and

they would not have needed to take subscriptions from the public?

MR. GEOFFRION: They might have bought other mills oranything at all. That is just fancy.

MR. McRUER: It is not fancy at all. We are inquiring how this company could have got along, on its own record, if it had not paid out very huge sums of money in dividends. We can argue and conjecture, but there is nothing fanciful about it. We will have another round out of this at any rate sometime. I understand, my lord, that Exhibit 949 has now been got.

THE COMMISSIONER: I think that was put in.

(Page 12880 follows)

(Page 18880 follows)

MR. McRUER: Well, it was marked. It was in pencil and this is copy - that is wages, bond interest. Well, that concludes the examination of Mr. Howson on the Dominion Textile.

THE COMMISSIONER: Have you any other witnesses on the Dominion Textile Company?

MR. McRUER: Oh yes, there may be some further examination in reference to the question of inventory reserve, still working on them.

THE COMMISSIONER: You are through for to-day?

MR. McRUER: Yes. I propose to go on with Montreal Cottons Limited right now.

THE COMMISSIONER: Just a moment before we close the Dominion Textile Company - I see Mr. Geoffrion is not here; Mr. Heward and Mr. Ballantyne are here- what is your intention? Have you anything particular to offer in connection with Dominion Textile?

MR. HEWARD: Yes, we will have to examine witnesses in reply to Mr. Howson.

THE COMMISSIONER: And you want another opportunity?

MR. HEWARD: Yes. I believe that Mr. Fessenden is making a report which we have not seen yet and I understand there are some witnesses coming up on labour questions from Drummondville, Sherbrooke and Hochelaga, I am told, next week. I am afraid you will see us again.

THE COMMISSIONER: That does not fill me with any apprehension. I was just wondering whether going

MR. MORGAN: Well, it was marked. It was in yourself and Mr. [illegible] that it would, interest. Well, that concludes the examination of Mr. Morson on the Dominion Textile.

THE COURT CLERK: Have you any other witnesses on the Dominion Textile Company?

MR. MORGAN: Oh yes, there may be some further examination in reference to the question of [illegible]

THE COURT: You are through for the day?

MR. MORGAN: Yes. I propose to go on with motions [illegible] limited right now.

THE COURT REPORTER: Just a moment before we close the Dominion Textile Company - I see Mr. Scottish is not here; Mr. Seward and Mr. Williamsons are here. What is your intention? Have you anything further to offer in connection with Dominion Textile?

MR. [illegible]: Yes, we will have to examine witness in reply to Mr. Morson.

THE COURT REPORTER: And you want another [illegible]

MR. [illegible]: Yes. I believe that Mr. [illegible] is making a report which we have not seen yet and I understand there is some witnesses coming up on [illegible] stations from Drummondville, Sherbrooke and [illegible] else, I am told, must work. I am afraid you will see us again.

THE COURT REPORTER: That does not fill me with an

on to-day or later on. Is Dominion Textile interested in Montreal Cottons?

MR. BALLANTYNE: Yes, they own 58% of the issued stock and I am appearing for Montreal Cottons.

MR. McRUER: The first exhibit, my lord, will be the answer to the Questionnaire of Montreal Cottons.

EXHIBIT 952: Answer to questionnaire of Montreal Cottons.

MR. McRUER: There is attached some correspondence that has passed between Mr. Howson and the Company which is explanatory of certain things that is contained in the Questionnaire.

Q. There is one set of answers - there are no subsidiaries in this case, Mr. Howson? A. No.

MR. McRUER: Now, we covered the capital history of this Company, my lord, very thoroughly at Valleyfield and I do not propose to go over any of the details of it. We may have it extracted from the evidence later on as it is given there but at the moment I am going to deal only with one or two items with respect to it.

Q. Referring to page 17 of Exhibit No. 917---

MR. HEWARD: Can you give us the title?

MR. McRUER: "Capitalization and Operating Results." There appears to be outstanding $3,000,000 in preferred stock and $3,000,000 in common stock? A. Yes, sir.

Q. The common stock was issued as a bonus, was it? A. Yes.

Q. As a sort of stock dividend, really? A. Yes.

Q. When was that stock dividend declared?

A. It was put on the books of this Company in 1924 but my recollection is there was rather a hiatus between-- the old company was still operating as an operating Company, and the new company was sort of a holding company. I would just like to see what the questionnaire says about it.(Witness looks at Questionnaire.) It was in 1911.

Q. Well then, you have got "Bonus from surplus, $110,500," What is that? A. There was a transfer to reserve account from bonus stock of $50,000 in 1879 and $50,000 in 1880, and $10,000 in 1881.

Q. It really was, then, bonus stock, was it? A. Yes.

Q. And then "Issued for withdrawal of suit, $5,000," that does not amount to much, and then you adjust the amount of the capital represented, issued for cash, $2,867,800, issued for bond interest, $16,700? A. Yes.

Q. Now, you take the net revenue down to 1925. There was a re-organization of the Company, was there, in 1925? A. No, bringing it down to the period into the ten-years of questionnaire.

Q. In which the questionnaire starts? A. Yes, sir.

Q. This is the operations of the Company prior to the 10-year period that you deal with as a whole? A. Yes.

Q. Their total net revenue amounted to $13,811,511.63.

and of that $12,104,436.63 was paid in dividends on this bonus stock? A. No, that bonus stock was included in those dividends. That is dividends and stock bonus. Out of the total revenue of $13,000,000 they paid dividends , including the stock bonus, of $12,104,000.

MR. HEWARD: Q. The stock bonus was taken out of surplus, in other words? A. Yes.

MR. McRUER: Q. Oh, the stock bonus of $3,000,000? A. Yes, stock dividends or bonus, whichever you call it.

Q. Well, the amount of dividend then paid on the bonus stock over that period would be $9,100,000. Oh, no, that includes the preferred dividend too.

A. The preferred dividend was stock dividend. The stock dividend was in preferred stock.

Q. Oh, it was? A. Yes.

THE COMMISSIONER: Q. When was the common stock created? A. Right at the inception of the Company.

Q. Was it issued for cash? A. Most of it was issued for cash, yes.

Q. And the preferred stockcame in later? A. Yes, the preferred stock was the dividend which was issued and charged to surplus account.

Q. In 1911, you say? A. Yes.

MR. McRUER: Q. What was the rate of dividends on the preferred stock? A. Seven per cent.

Q. Since 1911 then the Company would pay a dividend

this bonus stock? A. No, that bonus stock

was included in those dividends. That is dividends

and stock bonus. Out of the total revenue of

$12,030,000 they paid dividends, including the stock

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Q. In 1911, you say? A. Yes.

MR. MONTGOMERY: Q. But was the rate of dividends

on the preferred stock? A. Seven per cent.

on the preferred stock of 7%? A. Yes.

Q. And that would be the amount that would be paid on the bonus stock? A. Yes.

THE COMMISSIONER: The bonus stock is all preferred stock?

MR. McRUER: Yes.

THE COMMISSIONER: The dividend has always been paid, has it?

MR. HEWARD: The preferred dividend?

THE COMMISSIONER: Yes.

MR. McRUER: The preferred dividend has always been paid?

THE COMMISSIONER: That is right?

MR. HEWARD: Yes, my lord.

THE WITNESS: They had a peculiar scheme. As I say, they still carried the thing on from 1911 to 1926 as though it was one issue and they put it through as total dividends.

MR. McRUER: Q. What do you mean by "One issue"? A. One issue of stock rather than distinction between preferred and common.

Q. Would not it get into different hands? A. Oh, yes, it was distributable. I mean on their books. It was only in 1926 that they set up on their books the distinction in the capital as far as we can determine.

THE COMMISSIONER: Q. was there any difference in dividends in those previous years between the two classes of stock? A. No, the preferred stock, seems to be $210,000 provided each year.

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Q. And what would be the amount that would be paid

A. Yes.

Q. Is the preferred stock of the

A. Yes.

Mr. Howard: Yes.

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Q. Would not it get into different hands? A. Of
course, it was alienatable. I mean on their books.
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as distributable in the way that we can better

Q. What about the other stock? A. The total dividends, for instance, in 1918 was $330, that would be $120,000 for ordinary stock, that would be $4.00 a share.

Q. $210,000 for the other? A. Yes. And in 1919 it was $345,000 total, which would leave the common stock $135,000, and from then on $390,000, which would leave the common stock $180,000. The two companies ---

MR. McRUER: Q. When you say "Two companies," which do you mean? A. The old Montreal Cotton Company and Montreal Cottons, Limited. The old Montreal Cotton Company - Montreal Cottons was organized but they did not actually take the old company, they kept the old company running as an operating company and new Company had stock and the old company still had its stock.

MR. HEWARD: The old company's stock was all held by the new company.

MR. BALLANTYNE: Q. But the old company never had any dividends for the holding company? A. I don't know how they handled it. I think the new company distributed all the dividends or the old company did. One company distributed all the dividends.

BY MR. McRUER:

Q. At any rate your summary here shows the dividends and stock bonus, $12,104,436.63. Well, of that $3,000,000 was stock bonus? A. Yes.

Q. And the balance was dividends? A. Yes, sir.

Q. And then at the end of 1925 there was an

Q. Then about the other stock? A. The total dividends, for instance, in 1919 was $930, that would $180,000 for ordinary stock, that would be $4.00 a sha

Q. $110,000 for the other? A. Yes. And common stock $185,000, and from then on $300,000, which would leave the common stock $90,000. The two companies ---

MR. MORRIS: Q. When you say "two companies," which do you mean? A. The old Montreal Cotton Company and Montreal Cottons, Limited. The old Montr Cotton Company - Montreal Cottons was organized but th did not actually take the old company, they kept the old company running as an operating company and new Company had stock and the old company still had i stock.

MR. FRANKEL: The old company's stock was all held by the new company.

MR. SLAUGHTER: Q. But the old company in 1920 had any dividends for the holding company? A. I don't know how they handled it. I think the new company distributed all the dividends of the old company did.

BY MR. MORRIS:

Q. At only into your summary here where the divide and stock bonus, $12,104,430.69. all, of that

Q. And the balance was dividended? A. Yes, all.

undistributed surplus of $1,214,851.38? A. Yes.

Q. Now, can you tell me from any record that you have got when it was that the Dominion Textile got control of this Company. I think we had that in evidence.

MR. BALLANTYNE: I am not sure, some time in the 30's, was not it? At least it was some time in the 30's before they took an active part.

MR. HeWARD: I think the evidence was that it was some time in the late 20's that they actually got control, and some time in the early 30's that they started to take an active part in the operations of the Company. It is only guess work from memory.

MR. McRUER: Q. Then you deal with the 10-year period from 1926 to 1935 inclusive? A. Yes.

Q. The net revenue from operations for that period appears to have been $716,840.46 and from outside investments, $903,980.94? A. Yes.

Q. Apparently their revenue from outside investment was more than their net revenue from operations? A. Yes, sir.

Q. Well then, what is this "transfer from extraordinary profits, $1,446,399.99"? A. Well, they entered into a transaction with the Beauharnois Light & Power Company, to lease for a long term their water power rights and they got certain consideration for that and this went in to surplus and used it for the purpose of paying their dividends. They

used part of it to write down the plant.

Q. To write down which? A. To write down the power plant.

MR. HEWARD: Q. Their water power plant? A. Yes.

MR. HEWARD: Because they had leased the water.

MR. McRUER: At any rate, that is the source of this extraordinary profit, and they paid out in dividends over that period in preferred and common, $3,360,000? A. Yes.

Q. And transferred to Sinking Fund Reserve $521,258.73 - is that in respect to the Bond issue? A. Yes, that is for the purpose of redeeming the bond, required under the sinking fund requirements, I presume.

Q. What is the extent of the bonds outstanding on this Company? A. At the end of 1935 it was $404,414. That was the gross amount. The redemptions amount to $368,000, so that the outstanding amount is $404,414.06.

Q. So that the $521,000 that has been charged against the sinking fund as reserve has been used for the purpose of redeeming bonds? A. Yes, sir.

Q. And their obligations to the public have been reduced that much? A. Yes.

Q. That left with these considerations an encroachment on the Surplus account of $1,193,617.98 over that period? A. Yes.

Q. During the period $1,312,686.52 was written

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power plant.

Q. To write down what? A. To write down the power plant.

MR. EDWARD: Q. Built water power plant? A. Yes.

MR. EDWARD: Because they had leased the water.

MR. MORLEY: At any rate, that is the source of this extraordinary profit, and they pay out in dividends over that period in preferred and common, $2,252,000?

A. Yes.

Q. And transferred to Sinking Fund reserve $281,306.74 - is that in respect to the bond issues required under the sinking fund requirements, I presume.

A. Yes, that is for the purpose of redeeming the bonds on this Company? A. At the end of 1923 it redemptions amount to $236,000, so that the outstanding amount is $240,414.06.

Q. So that the $251,000 that has been charged against the sinking fund as reserve has been used for the purpose of redeeming bonds? A. Yes, sir.

Q. And their obligations to the public have been

Q. That left with these considerations an encumbrance on the surplus account of $1,136,837.06

off to depreciation? A. Yes.

Q. And repairs and equipment, $2,909,062.53? A. Yes.

Q. You deal with that item on page 19, do you not? somewhat in detail? A. Yes.

Q. We get at the lower part of the page a distribution of it. Now, take in the year 1926, for instance, there seems to have been charged to repairs $233,238.94 as against $43,105.69 in 1935. Were you able to get any explanation as to these charges to repairs and equipment, the variation in them? A. We were not able to get any satisfactory explanation. I mean, it is in the same position as the Dominion Textile, without spending a great deal of time and analysing it and going through the individual accounts it is almost impossible to get it.

Q. It seems to reverse itself in 1935 that under "Mill supplies and equipment," it goes up to $249,108.62. as against $83,240.83 in 1926. On the other hand--

THE COMMISSIONER: It reversed itself earlier than that, in 1932.

THE WITNESS: This is not complete at all because of the fact that the Company started to charge it to wages, repair wages or included in its wage account was some heavy charges for repairs, revamping plant, which are not here at all because we could not get any---

MR. HEWARD: Q. Those are repair wages charged

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CANADA

to general wages? A. Yes. In respect of that statement I just wanted to produce a letter which Mr. Gordon wrote to Messrs Clarkson, Gordon, Dilworth, in connection with the Price Spreads Committee explaining that situation.

MR. McRUER: I think we had better have this filed. It is a letter from Montreal Cottons Limited over Mr. Gordon's signature to Clarkson, Gordon and Dilworth, dated the 17th of October, 1934, which reads as follows:

"Enclosed are our returns called for by your letter of August 9th. This Company is to some extent allied with the Dominion Textile Co., Ltd. for executive and administrative purposes, which accounts for a similarity in the general form and treatment of these figures with those of that Company.

The last fiscal year for this Company ended on December 31st, 1933, so that the first year of our ten year period is 1924, and 1929 for the five year period, and not 1925 and 1930 as in the case of the Dominion Textile Co. Ltd.

There are various other points where this Company differs essentially from the Dominion Textile Co. Ltd., which are, perhaps, worth noting for your information, viz.:

You will note we do Flock Printing. This is an entirely different operation from the Calico Printing carried on by Dominion Textile

ROBT. BRYDIE
Chartered Accountant
TORONTO CANADA

to question regard? A. Yes. In respect of the statement I just agreed to produce a letter which Mr. Gordon wrote to Messrs Clarkson, Gordon, Dilworth, in connection with the Price Bureau Committee explaining that situation.

MR. DONDERA: I think we had better have this marked. It is a letter from Montreal Cottons Limited over Mr. Gordon's signature to Clarkson, Gordon and Dilworth, dated the 17th of October, 1934, which reads as follows:

"Enclosed are our returns called for by your letter of August 8th. This Company is to some extent allied with the Dominion Textile Co., Ltd. for executive and administrative purposes, which [illegible] and treatment of those figures with those of that Company.

The last fiscal year for this Company ended on December 31st, 1933, so that the first year of our ten year period is 1924, and less for the five year period, and not 1925 and 1930 as in the case of the Dominion Textile Co. Ltd.

Company, Ltd., at its Magog Print Works, and is a comparatively small department of our business. Our main business is cotton goods dyed in the piece.

You will note from the appendix to this item, which gives the details of our wage policies &c., that these have not been concurrent with those of the Dominion Textile Co. Ltd. although certain labour conditions indigenous to the cotton industry are naturally reflected in both returns, such as the training of apprentices, &c.

Although, as explained in appendix to Item No. 15, there has been no change in general wage levels in our mill over the past five years, the figures shown in the totals for our summaries of pay rolls would seem to indicate the contrary at first glance. The average wage per 110 hours is shown as $29.90 in February, 1933, and $27.68 in February, 1934, but a closer examination of the detail of wages and rates will reveal the true reason. In 1933, when a considerable amount of revamping and repair work, started in 1930 and 1931, was still going on, the Maintenance Department, employing carpenters, millwrights, &c. at high rates of wages, accounted for more than one quarter of the total pay roll. In 1934 this class of work had fallen off very considerably and, at the same time,

Company, Ltd., at its Magog Print Work
and is a comparatively small department of our business. Our main business is cotton goods dyed in the piece.

You will note from the appendix to this item, which gives the details of our wage policies so, that those have not been concurrent with those of the Dominion Textile Co. Ltd. although certain labour conditions indigenous to the cotton industry are materially reflected in each returns, such as the training or supervision, &c.

Although, as explained in appendix to Item No. 15, there has been no change in General wage levels in our mill over the past five years, the figures shown in the totals for our summaried of pay rolls would seem to indicate the contrary at first glance. The average wage per 110 hours is shown as $20.30 in February, 1935, and $27.85 in February, 1934, but a closer examination the true reason. In 1934, when a considerable amount of renewing and repair work, started in 1930 and 1931, was still going on, the

the regular operating departments of the mill were more fully occupied so that the wages of the Maintenance Department represented only one tenth of the total pay roll, and their effect on the average of the plant was, therefore, much less. Apart from this fact, it should be noted that while there are many changes between rates of pay for various occupations between 1933 and 1934, these were in the nature of adjustments to new machinery and task conditions, with the increases and decreases balancing up.

We trust you will find our returns complete in every way. We can assure you that if there is any further information you require we will be glad to furnish same upon request."

THE WITNESS: "e were not able to get any information on the amount of the pay roll.

Q. So that if wages were charged in the ordinary pay roll as this indicates that they were and the men were employed in reconstruction of the plant, then the reconstruction would come out of profits and not out of capital? A. Yes.

MR. BALLANTYNE: That has nothing to indicate it was reconstruction of plant. It says Maintenance --

MR. McRUER: We will just see what it does say.

THE WITNESS: Revamping the plant.

MR. McRUER: Well, that does not sound like maintenance.

MR. BALLANTYNE: It may have been moving machinery from one place to another.

MR. McRUER: It ran a very large percent of the pay-roll. Came down to 10% in 1935, they were not moving machinery. "In 1933, when a considerable amount of revamping and repair work, started in 1930 and 1931, was still going on, the Maintenance Department, employing carpenters, millwrights, and etc., at very high rates of wages, accounted for more than one-quarter of the total pay roll."

But you see when we look at the charges here to repairs on page 19, I find difficulty in reconciling it with this paragraph in Mr. Gordon's letter, because in 1931, 1932, 1933, 1934 and 1935 the charges to repairs were very much lower than they had previously been for many years since 1918 down? A. That was because they changed their system of charging wages - instead of charging repair wages to repair account they charged them to wage account.

Q. They charged them to the ordinary wage account? A. Yes, sir.

Q. Instead of charging them up to the repair account? A. Yes, sir. That is the information we have.

Q. Is there any explanation as to why Mill Supplies and Equipment Account went up from 1931 to 1935? A. No, except that they changed their whole system of accounting, revised the whole system of accounting, classification and not able to analyse it and follow

it through.

Q. Now, have we got anything that can give us the appraised value of this plant to-day? Yes, we have "Insurance Appraisal". That is referred to on page 18, "Insurance appraisal of June 29th, 1936 shows insurable value of Plant and Building without Substructure and Land at $7,591,283." A. This Company charged off no depreciation for a number of years during this ten-year period. There was no depreciation charged to operations during the years 1928, 1929, 1930, 1931 and 1932.

Q. Then how much did they charge following that? A. They charged $200,000 off in 1933, $322,490 in 1934 and $330,195 in 1935.

Q. I am coming at another point and that is that on a plant that is valued in the Insurance Appraisal without substructure or land at $7,591,283 your statement shows that from 1902 to 1935 they have charged against repairs and mill supplies and equipment the sum of $7,859,919.14.

THE COMMISSIONER: Where do you get that?

MR. McRUER: That is on page 19, my lord.

MR. BALLANTYNE: They had charged off how much?

MR. McRUER: $7,859,919, and of that $3,402,739 was charged in the ten-year period from 1916 to 1925? A. Yes.

Q. Now then, have we anything that shows what depreciation was charged over --- Yes, we have that.

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On page 18 you show a depreciation up to 1916 of $2,929,886.40 and depreciation from 1917 to 1935 of $2,299,533.22. Now, then you take the "Net book value"and take the "Insurance appraisal" and you show an approximate surplus over book value of $2,000,000? A. Yes, without any value of substructure or land, which we have no means of arriving at.

Q. No means of arriving at the value of the substructure or land and that does not take into consideration either the amount charged for repairs and mill supplies, and equipment, etc.? A. No, that would reflect itself in the surplus over the book value.

Q. Now, up until the year 1929 - I am at page 21, this company ---

MR. BALLANTYNE: Would you give me the heading of that?

MR. McRUER: Profit and loss and surplus summaries. This Company showed a net profit on sales varying for the first three years - 1926, 1927, 1928, at 7.8, 7.7 and 7.7, and then 1921, 3.1 %, and from 1930 to 1934 either a loss or practically no profit? A. That is right. That was without charging any depreciation as depreciation was charged in 1926 and 1927 but no depreciation was charged in 1928 or 1929 or 1930 or 1931 or 1932, and in 1933 they charged depreciation. It is shown right there on the statement. Of course, those repairs and that

on page 19 you show a depreciation up to 1918 of $2,946,838.40 and depreciation from 1917 to 1928 of $2,269,838.22. Now, then you take the "net book value" and take the "insurance appraisal" and you show an appraise surplus over book value of $2,000,000? A. Yes, without any value of substructure or land, which we have no means of arriving at.

Q. No means of arriving at the value of the substructure or land and that does not take into consideration either the amount charged for repairs and upkeep, and replacement, etc.? A. No, that would reflect itself in the surplus over the book value.

Now, up until the year 1930 - I am at page 21, [illegible] —

MR. DUNCAN-CLARK: Would you give me the heading of that?

WM. MORTON: Profit and loss and surplus summaries. This company showed a net profit on sales varying for the first three years - 1915, 1917, 1918, as $.8, 7.7 and 9.7, and then 1917, 6.1 %, and from 1920 to 1924 either a loss or practically no profit?

A. That is right. There was without charging any depreciation no depreciation was charged in 1918 and 1917 but no depreciation was charged in 1919 or 1920 or 1921 or 1922, and in 1923 they

sort of stuff were charged.

Q. I am wondering if there is an explanation as to why a company that had shown profit up until there was a change in control, they did not show profits after that? A. I have no explanation.

Q. You have not been able to find any reason for it? I do not propose to go into all the detail on this, my lord. I think we have covered it sufficiently. We have covered the principle on which these statements are made up and as to the remaining of these companies I just intend to touch the high spots.

THE COMMISSIONER: So far as you are concerned you are through with Mr. Howson in regard to Montreal Cottons?

MR. McRUER: Yes.

THE COMMISSIONER: Will you be long, Mr. Ballantyne?

MR. BALLANTYNE: I really have not a great deal but these things have a habit of stretching out.

THE COMMISSIONER: We will adjourn.

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-- The Commission adjourned at 5.00 P.M. to resume at 10.30 tomorrow morning, November 19th, 1936.

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-- The Commission adjourned at 5.00 P.M. to resume at 10.30 tomorrow morning, November 19th, 1958.
